

# Value-based Pricing regarding on Customer Perceived Value in Contemporary Marketing

Prapasri Phongthanapanich<sup>1</sup> and Wisanan Ouparamai<sup>2</sup>

Received: May 5, 2021 / Revised: June 8, 2021 / Accepted: June 22, 2021

## Abstract

It could be said that contemporary marketing focuses on customers and markets by connecting transactional marketing to relationship marketing using a modern information system to reaching consumers from all over the world by the variety devices via online channels in an interactive way. Many approaches of pricing strategy are often used to establish the suitable price for a product or service to satisfy customer. However, it not easy to determine how much they value the product or service they are buying in their point of view. Value-based pricing regarding on customer perceived value must be adopted to figure out how much the customer values a product or service and pricing it accordingly. Deciding how much to charge for a product requires more thoughts to ensure that customer perceived value is worth or higher than the cost they pay. By reviewing, studying and analyzing the relevant academic literatures above, the value-based pricing regarding on customer perceived value in contemporary marketing can be achieved by combining 3 guidelines approaching which are 1) setting prices to meet customer needs, 2) setting prices to attract customers, and 3) setting prices to suit the nature of products or services. These 3 guidelines must be considered together with other factors including business internal factors: such as organizational factors and goals of the business, cost of the product and service, product differentiation, the other elements of the marketing mix, etc. and business external factors: such as price elasticity of demand, suppliers, competition, economic condition, government laws and regulations, and even unexpected situations, etc.

**Keyword:** Value-based Pricing, Customer Peived Value, Contemporary Marketing, , Customer Co-Creation

## Introduction

Today, it is evident that the internet and digital technologies lead to massive changes in a business environment. At the same time, these technologies offer excellent opportunities for businesses to reach an enourmous number of customers worldwide. As a result. customers can simply access information about products, businesses, and benefits that they can acquire by using such products at anywhere and anytime. Then, understanding consumer behavior,

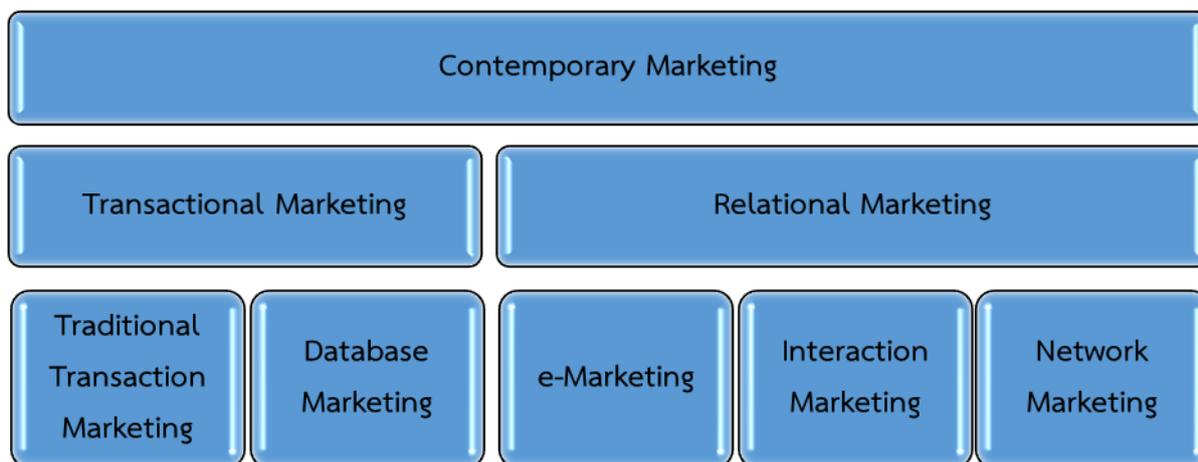
---

<sup>1</sup> Associate Professor, School of Management Sciences, Sukhothai Thammathirat Open University, Nonthaburi, Thailand.  
E-mail: prapasri.phongthanapanich@gmail.com

<sup>2</sup> Assistant Professor, School of Management Sciences, Sukhothai Thammathirat Open University, Nonthaburi, Thailand.  
E-mail: wisanan60@gmail.com

especially ASEAN consumer behavior, which is often driven by various marketing factors, is a critical role for marketers to survive a business in the long term. Nowadays, it is well-accepted that the customer determines the product's characteristics based on their needs. A business that can design and plan actions to best meet the needs of its customers will be successful in business operations. Customers seek the best products or services for themselves in terms of perceived quality. Therefore, businesses have to adapt themselves in order to meet customer needs and requirement in terms of productivity, quality, after-sales service, and production costs. However, a customer's purchasing decision depends not only on the quality of the products that meets customer's needs but also on other factors that can influence the outcomes of purchasing decisions especially the price of the products. Pricing the offering products and services play an important role in the customers' eyes when making the purchasing decision (Nagle, Hogan, & Zale, 2014). Therefore, businesses need to understand what customers expect to receive when they have to pay the cost and then set a price that reflects the offering value of their products. Professional marketers always apply several effective pricing strategies to generate profit for the organization by converting the visitor to the new customer and turn new customers into regular purchasers, transform regular purchases to become loyal customers. Finally, try it best to retain the loyal customers and convert them to become the advocate who willing to share their positive experience from using the product with their families, their friends, and other people whenever they have a chance (Boone & Kurtz, 2018).

Contemporary marketing is the theory that focuses on customers and markets by connecting transactional marketing which is the traditional marketing to relational marketing by using a modern information system to reach consumers from all over the world via online channel in an interactive way. It can be described in Figure 1 that contemporary marketing has been divided into two essential parts which are Transactional Marketing and Relational Marketing as belowed.



**Figure 1** Context of Contemporary Marketing.

**Source:** Author's compilation based on Lindgreen, Palmer, and Vanhamme (2004); Boone and Kurtz (2018)

Transactional Marketing can be classified into two subcategories including 1) Traditional Transaction Marketing and 2) Database Marketing (Lindgreen, Palmer, & Vanhamme, 2004). Traditional Transaction Marketing is a business strategy that focuses on sales transactions, emphasizing maximizing the volume of sales rather than developing a relationship with the customer. Database Marketing is a business strategy that uses databases of customers to generate direct communications with target customer in order to communicate and promote a product or service for marketing purposes as same as direct marketing. Meanwhile Relationship

Marketing can be classified into three subcategories including 1) e-Marketing, 2) Interaction Marketing, and 3) Network Marketing. Relationship Marketing focuses on customer loyalty and long-term customer engagement rather than shorter-term goals. E-Marketing means the marketing activities that relating to promoting and saling products or services by using online channel. It uses a variety devices of digital technologies to help businesses and their customers to easily communicate among each other. Interaction Marketing is a one-to-one marketing concept that encourages business to directly interact with their customers individually in order to create customer Co-Creation. Finally, Network Marketing is a business strategy focusing on person-to-person sales by independent representatives. It requires a network of business partners or salespeople to generate income by propose sale offering until reach an agreement and closing sales.

A contemporary marketing strategy offers products and services based on the target customer desires rather than what the business wants them to have so that it increase the perceived value of the products and seVICES in customer point of view (Solomon, Marshall & Stuart, 2015). Market orientation is moving toward maintaining current relationships as well as looking for potential future customers. Relationship marketing is a strategy that supports all businesses to develop a strong connection with their customers. It is beneficial for the business to understand customers in the long run, which results in customer loyalty rather than customers purchase once or infrequently. Today, relationship marketing involves creating accessible two-way communication between the business and customers directly, tracking customer activities, and providing desirable information to customers. In recent times, with the help of artificial intelligence (AI), marketers can process a massive amount of data, carry out individualized sales and fulfill customer expectations. Jain and Aggarwal (2020) reported that marketing currently serves as the 4<sup>th</sup> largest use case of AI concerning resources spent and the 6<sup>th</sup> largest industry adopter of AI technology. Therefore, the modern marketer must understand artificial intelligence marketing (AIM) to identify the target with information to get customers to re-engage with the business. This interactive communications can create customer engagement as a bridge between customer and business or called customer co-creation (Kotler, Kartajaya & Setiawan, 2017).

From discussed above, this paper will explore guidelines for value-based pricing regarding on customer perceived value in the context of contemporary marketing by studying and analyzing principles, concepts, theories and reviewing the relevant academic literatures and research articles.

## **Pricing Perspective in Contemporary Marketing**

The paper will focus on the changes in price from the standpoint of economics. In the past, most businesses paid attention to production as the origin of business success. They generate profit by manufacturing products as much as possible and focus on selling them to customers, as shown in Figure 2. This strategy is effective because there are a few players in the market, and the productivity is low. Then the product can be sold its product at the given price.



**Figure 2** Past Business Perspectives.

The product price can be easily expressed in the form of an economic equation such that

$$\text{Cost} + \text{Surplus Profit} = \text{Sales Price}$$

Businesses can mark up the selling price as they want in the past. The selling price is a sum up of the cost per unit and surplus profit. However, this strategy is obsolete and inefficient, especially in contemporary marketing, due to the highly competitive environment. There are many pricing strategies proposed during the past several years. It is well-known to marketers that these are not necessarily standalone strategies; many can be combined when setting prices for products and services. Some common pricing strategies are cost-plus pricing, high-low pricing, penetration pricing, bundle pricing, psychological pricing, competition-based pricing, and value-based pricing. Nowadays, the advancement of the internet and digital technologies provides accessible information about the product and business. The customer decides which manufacturers to purchase from, which is abundant in the market. Therefore, businesses have to adapt to align with the changes mentioned above to obtain quality products at fair prices. The business model had changed to the customer-oriented perspective model, as illustrated in Figure 3.



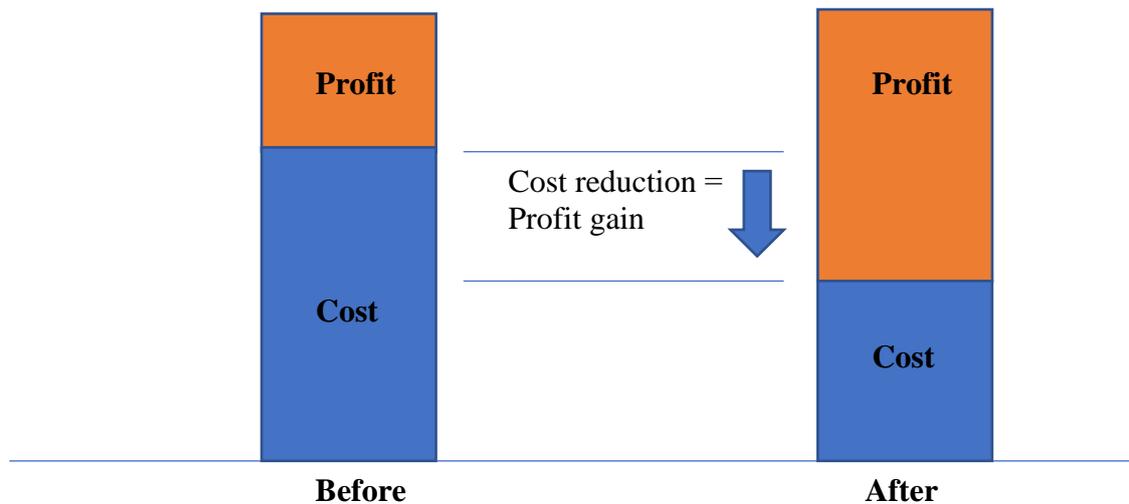
Figure 3 Present business perspectives.

The economic equation is then reformulated as follows.

$$\text{Sales price} - \text{cost} = \text{profit}$$

At present, it isn't easy to achieve the best pricing strategy to maximize profit and revenue because most businesses operate in highly competitive markets. Therefore, the profit that the business receives will depend mainly on the cost, as shown in Figure 4. In the contemporary market, the availability of information at a low cost may be the most influential factor in gaining the bargaining power of customers. Hence, the cost reduction strategy could be the best way to maintain profit and survival of business in the present situation. Cost reduction strategies from Kepner-Tregoe (KT) are effective principles for increasing additional benefits by eliminating waste, accelerating processes, and utilizing resources effectively. With reduced production costs, the business can refocus budgeted resources on expanding operations or new market expansion ("Cost reduction strategies," 2021).

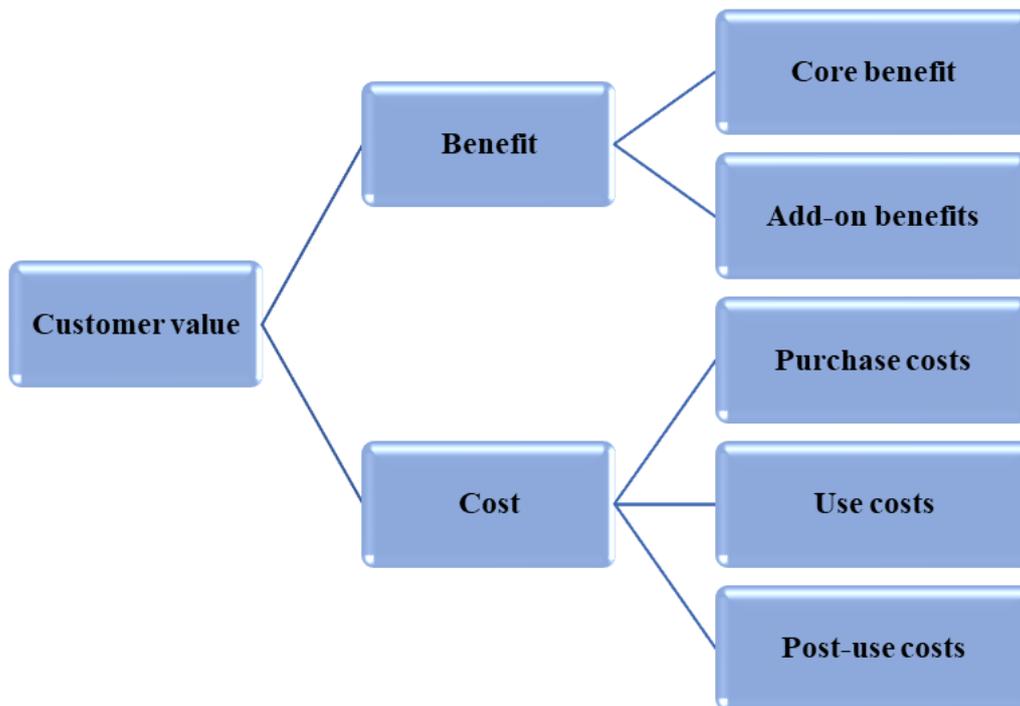
Therefore, we may conclude that there are two major strategies, cost reduction strategies and pricing strategies, that businesses mainly applied to enhance their competitiveness. Cost reduction strategy depends on the business itself. The cost minimization could be achieved by several factors, e. g., business process improvement, production management, supply chain management, and quality improvement. However, pricing strategy usually depends on external factors, e. g., demand, competition, customer, and government regulations. Price is the perceived value that is typically referred to as the amount of money exchanged for a product. However, after a consumer has used a product, the consumer may compare its actual value with the perceived value when it was purchased. Therefore, setting the right price is one of the critical success factors for any business.



**Figure 4** To gain profit by reducing the cost.

#### **Value-based pricing regarding on customer perceived value**

Value-based pricing regarding on customer perceived value (Dholakia, 2016) is the method of setting a price by which a company calculates and tries to earn the differentiated worth of its product for a particular customer segment when compared to its competitor. In other word, it is a customer-focused pricing. The marketer can determine a suitable value-based price for each segment. This method only works when the target segment has a specific competitor's product they can buy instead. The next best alternative is the starting point of comparison for calculating the value-based price. Therefore, a business must understand customer perceived value in order to set the right price to persuade customers to focus on total costs rather than simply on the acquisition price. Customer perceived value is the perception of what a product or service is worth to a customer compared to the next best alternative. The model is based on assessments of the costs and benefits of a given market offering in a particular customer application, as shown in Figure 5. Value is the worth in monetary terms of the technical, economic, service, and social benefits a customer receives in exchange for the price it pays for a market offering (Anderson & Narus, 1998).



**Figure 5** Structure of customer value.

Benefits that create value for customers can be divided into two categories which are core benefits and add-on benefits. The core benefit is the fundamental need that the customer satisfies when they buy the product, which defines the level of quality and performance and their before- and after-sales service expectations. Otherwise, add-on benefit is attributes of a product or service that are beyond the core benefit. Customers may use these additional benefits to choose a product that is different and superior to the other.

In the meantime, total customer cost is the bundle of costs customers expect to pay in researching, evaluating, buying, obtaining, maintaining, and deposing a given product or service. It can be divided into three categories including purchase costs, use costs, and post-use costs (Belz & Peattie, 2012). Purchase costs include the cost of researching, evaluating, buying, and obtaining a product or service. Use costs are the cost occurs during the usage of a product or service and include the costs of switching to a new product. Post-use costs include the collection, storage, and disposal cost when customer wants to get rid of their product that customer does not want to use it anymore.

**Factors affecting pricing decision in contemporary marketing**

As mentioned earlier, costs and profits are two dominant factors that have a direct impact on selling price. Several cost reduction strategies have been applied to minimize the costs. In addition, to maximize profit, a business must find a way to maximize customer's perceived value of a product or service so that they can set the higher price to sell their products which inturn making more profits for business. For the contemporary market, the importance of each pricing factor depends on each customer behavior or purchasing objectives of the customer. It is widely accepted that there are two types of factors affecting product pricing which are internal factors and external factors. (Haron, 2016). Internal factors are related to the internal environment of the business and can be controllable, such as organizational factors and goals of the business, cost of the product, product differentiation, and marketing mix. On the other hand, external factors include variables related to the external environment, which the business has less or has no control over these variables such as customer expectations, price elasticity

of demand, suppliers, competition, economic condition, government laws and regulations, and unexpected situations such as the recently COVID-19 pandemic.

***Internal factors:***

1. Organizational factors and goals of the business

The goals of the business serve as a basis for the development of pricing strategy. Generally, the overall pricing strategy is decided by top executives. However, the actual mechanics of pricing are dealt with at lower levels, e.g., salesperson, and focus on the individual product or service.

2. Cost of the product

Cost is the primary element in setting prices for a product or service. A business with low costs should have a better opportunity to increase sales and profit by lowering a product or service price.

3. Product differentiation

Product differentiation is a key for businesses to introduce a new product or service to the market. The price of the product depends upon the characteristics of the product. The business can set a high price for the uniqueness of its product or service.

4. Marketing mix

A pricing strategy must be implemented together with other elements of the marketing mix. The marketer must consider the total marketing mix when setting prices to match customer perceived value.

***External factors:***

1. Customer expectations

In reality, the customers are the final authority who determines the price of a product or service. These benefits or value can be assessed from two fundamental perspectives of customer needs: the need for product function and the need for the pleasure of using the product (Aulia, Sukati, Sulaiman, 2016). The use of the concept of customer perceived value creates more satisfied customers and directly affects customer repurchase activity.

2. Price elasticity of demand

The marketer must understand how sensitive demand for a good is compared to changes in other economic factors, such as price. The price-demand relationship varies for different markets, e.g., pure competition, monopsony, oligopoly, and monopoly. Therefore, the marketer must understand the price-demand relationship for a product and service before setting prices.

3. Suppliers

Suppliers of raw materials can have a significant effect on the cost of a product. The scarcity or abundance of raw materials also determines pricing. Therefore, the business must implement supply-chain management to minimize the risk from suppliers.

4. Competition

Competition is an important factor in price determination, especially for commodities. All competitors generally charge indifference prices. How much business is constrained by competitors' prices usually depends mainly on product differentiation. Generally, pricing strategies must inevitably be wisely adopted concerning future competition.

5. Economic condition

Economic history tells us that the boom and bust cycle is a key characteristic of capitalist economies. The cycle is a process of economic expansion and contraction that occurs repeatedly. During the boom cycle, the economy grows, and jobs are plentiful; otherwise, in the subsequent bust cycle, the economy shrinks, and people lose jobs and money. Therefore, pricing strategies must be applied concerning the economic cycle.

6. Government laws and regulations

The government endorses laws and regulations to protect people in the country. Government involvement is essential in a capitalist economy to maintain social efficiency and equity. Marketers need to be aware of laws and regulations that influence how price is set in the markets. Recently, more regulations focus on healthier and environmentally friendly issues; therefore, businesses should engage these issues by introducing and advertising their green products and then raising prices in order to promote a higher customer-perceived value for the product. Hence, proper implementation of pricing strategies will benefit both businesses and customers in developing long-term customer relationships (Mandal, 2019).

7. Unexpected situations such as the recently COVID-19 pandemic

Finally, unexpected situations such as the recently COVID-19 pandemic have a big impact on the economy worldwide. Short-term pricing strategies may need in times of crisis. However, it may have long-term impacts. The most flexible businesses initiate practices during the downturn to prepare themselves to succeed when the economy recovers. Some pricing strategies such as lower a price should be used carefully in order to prevent business engagement in the price war game.

Finally, the effective and suitable pricing strategy is necessary to generate and support long term business growth and business survival, plus business ethics must be enforced to preserve the image of business organization. Businesses must be aware of unethical pricing matters because they may break national or international legal systems and can cause negative reputation or even a damage to the business. Businesses must enhance their transparency and have a clear communication with customers to increase the confidence and gain trust from the customer. Otherwise, customer dissatisfaction may increase and lead to negative consequences to the business (Helmi, Pius, 2018).

## **Conclusions**

From the development of technology in ASEAN country at the present, it leads to the change of the customer behavior significantly. The customer behavior has changed from the purchase through the store to become customers who often order and pay for their desired products and services via online channels. Customers are open their mind to accepting the use of modern technologies and digital services including online platforms to enhance the convenience of their daily lives. Marketing model, therefore, needs to change from traditional marketing which is transactional marketing to contemporary marketing or relational marketing which using a variety number of online channels in an interactive way among customers to customers and customers to the business. As mentioned, this interactive communications promote customer engagement in creating the features and product quality that suit their needs entitled customer co-creation. An evident example would be attracting customers through social media content relevant to their needs or writing article and useful information posted in public social media. This customer engagement has a significant impact to the price setting strategy. That is because customer perceived value derived from both beneficial aspect and costing aspect play a very important role affecting the price setting. By reviewing, studying and analyzing the relevant academic literatures above, the value-based pricing regarding on customer perceived value in contemporary marketing can be achieved by combining 3 guideline approaching as follows:

1. Setting prices to meet customer needs. Business must set the selling price in order to meet the needs of their customers. This is a price determination that does not take into account only costs or just economic reasons, but the feelings and attitudes of customers' psychology must also be taken into account in determining the price. Business may setting the selling price higher than the competitor's product in order to make customers feel proud of using a valued

product with superior quality and image or setting the selling price by referring to the same category or same type of product or service offering by the competitors in the same industry that customers are already familiar with.

2. Setting prices to attract customers. Business has to set the selling price for marketing promotions. They may set lower prices than usual or create the promotional programs such as discounts, coupons, gifts, samples, premiums, displays, contests, rebates, and sweepstakes etc. in order to attract customers to buy more in terms of amount and frequency.

3. Setting prices to suit the nature of products or services. Business has to set the selling price in accordance with the nature, features and quality of the products or services. In some cases, the basic model may be priced at a lower price to attract consumers' interest and desire to purchase. After that, business may offer complementary products that can be used together and make the desired product even more functional.

In addition to the 3 guidelines approached above, setting the appropriate value-based selling price regarding on customer perceived value in the context of contemporary marketing, business must take into account together with all factors including internal factors: such as organizational factors and goals of the business, cost of the product and service, product differentiation, the other elements of the marketing mix etc. and external factors: such as price elasticity of demand, suppliers, competition, economic condition, government laws and regulations and even unexpected situations etc.

## References

- Anderson, J. C., & Narus, J. A. (1998). *Business marketing: understand what customers value*. Harvard Business Review. Retrieved April 29, 2021, from <https://hbr.org/1998/11/business-marketing-understand-what-customers-value>.
- Aulia, S. A., Sukati, I., & Sulaiman, Z. (2016). A review: customer perceived value and its dimension. *Asian Journal of Social Sciences and Management Studies*, 3, 150-162.
- Belz, F.-M., Peattie, K. (2012): *Sustainability Marketing: A Global Perspective*, 2. ed., Chichester
- Boone, L. E., & Kurtz, D. L. (2018). *Contemporary Marketing* (18<sup>th</sup> ed.). Cengage Learning, Inc
- Cost reduction strategies. (2021). Retrieved April 29, 2021, from <https://www.kepner-tregoe.com/operational-improvement/cost-reduction-strategies/>.
- Dholakia, U. M. (2016). *A quick guide to value-based pricing*. Harvard Business Review. Retrieved April 29, 2021, from <https://hbr.org/2016/08/a-quick-guide-to-value-based-pricing>.
- Haron, A. J. (2016). Factors influencing pricing decisions. *International Journal of Economics & Management Sciences*, 5, 1-4.
- Helmi, H., & Pius, A. (2018). A review of ethical pricing and its perception. *Saudi Journal of Business and Management Studies*, 3, 807-811.
- Jain, P., & Aggarwal, K. (2020). Transforming marketing with artificial intelligence. *International Research Journal of Engineering and Technology*, 7, 3964-3976.
- Kotler, P., Kartajaya, H. & Setiawan, I. (2017). *Marketing 4.0: Moving from Traditional to Digital*. New Jersey: John Wiley & Sons.
- Lindgreen, A., Palmer, R., & Vanhamme, J. (2004). Contemporary marketing practice: theoretical propositions and practical implications. *Marketing Intelligence & Planning*, 22, 673-692.
- Mandal, P. C. (2019). Public policy issues in pricing: strategies and initiatives. *International Journal of Applied Management Theory and Research*, 1:17-30.

Nagle, Hogan and Zale (2014). *The Strategy and Tactics of Pricing: A Guide to Growing More Profitable*. Fifth Edition. Pearson Education Limited. UK

Solomon, M. R., Marshall, G. W. and Stuart, E. (2015). *Marketing: Real People, Real Choices*. Global Edition Eight Edition. Pearson Education Limited.