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The Role of Pricing Strategies in Shaping Consumer Behavior: A Study of FMCG Markets

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ABSTRACT

Pricing strategies are essential tools that businesses use to determine how much to charge for their products. In the Fast-Moving Consumer Goods (FMCG) sector, where competition is intense and consumers are often price-sensitive, choosing the right pricing approach can significantly influence buying decisions and overall market success. This study explores how different pricing strategies impact consumer behavior, with a focus on the Indian FMCG industry. It aims to shed light on how companies can craft effective pricing and merchandising tactics by understanding customer perceptions and responses. Drawing insights from existing research and secondary data, the study offers a clear conceptual framework to evaluate how pricing strategies shape consumer choices and decision-making processes.. The study follows a descriptive approach, relying on an extensive review of literature to evaluate prevailing pricing models and their implications for consumer behavior. behaviour

1. INTRODUCTION

Price can mean different things to different people. For lenders, it might be the interest they charge; for banks, it could be the service fees they collect. But at its core, price is what a customer gives in exchange for the benefits of owning or using a product or service. It's the amount a buyer pays, but it represents more than just money—it reflects the value they believe they're getting. Pricing plays a crucial role in driving sales and is one of the most important elements in marketing. Getting it right can make all the difference in how a product or service is perceived and accepted in the market. There are numerous ways a firm and consumer can deal with price increases and decreases in their favour. Various types of pricing strategies such as penetration pricing, price skimming, premium pricing etc. With digital marketing and Web 2.0 coming into play, we delve into the topic of pricing decisions taken by firms and how it influences consumers currently. Fast moving consumer goods companies benefit the most out of all markets with good price tactics, but only 12% of these companies have a winning pricing model (Singh, 2019). Relying only on commonly used pricing strategies can be limiting. It's important to explore emerging pricing models that are being developed today, as some of these approaches have the potential to become widely adopted in the future. Taking these into account can help create a more sustainable and forward-thinking pricing strategy. This approach also allows businesses to spot trends in how pricing strategies are evolving (Poulis, 2020). The ultimate goal should be to find the right balance between profit margins and market share, aiming for long-term profitability. Sometimes, the most profitable pricing isn't the one that sacrifices too much market share compared to competitors.

2. LITERATURE REVIEW

FMCG is a dynamic sector of the Indian economy which is subject to minor changes taking place. An industry or a business has a variety of options when evaluating pricing methods, which are strongly influenced by several crucial elements. There are a lot of pricing strategies accessible to firms depending on the demand of the commodity, competitor prices, cost of production etc. (Tanya, 2015)

The body of literature on pricing strategies has evolved substantially over the past decade, particularly concerning consumer perceptions and market dynamics within the FMCG sector. Research by Monroe (2003) emphasized the psychological impacts of price perception, highlighting that consumer responses are often driven more by perceived value than by actual cost.

A recent study by Kumar and Rajan (2020) delves into the role of digital transformation in reshaping traditional pricing strategies, particularly within India's burgeoning e-commerce market. Their research underscores how dynamic pricing, influenced by real-time data analytics, is increasingly being used by leading FMCG companies to optimize profit margins while catering to diverse consumer preferences.

Furthermore, Chatterjee and Saha (2021) explored the intersection between pricing transparency and consumer trust in the Indian market. Their findings suggest that consumers are more likely to remain loyal to brands that clearly communicate pricing structures, a factor becoming increasingly relevant in the age of digital commerce and hyper-competition.

Another pertinent study by Sharma and Mehta (2022) focused on socio-demographic influences on pricing sensitivity, showing that urban consumers tend to respond positively to value-based pricing, whereas rural consumers exhibit greater price sensitivity, aligning with findings from earlier research by Gupta and Bansal (2018).

Additionally, cross-country comparative analyses such as those conducted by Zhang et al. (2019) provide valuable insights into how global FMCG companies adjust their pricing strategies when entering emerging markets like India. Their research highlights the need for localized pricing models that account for cultural differences and income disparities.

Price must be strategically categorized into three groups, as the need of one strategy can vary across countries, industries etc, namely, competition-based pricing, cost-based pricing, and value-based pricing. (Hinterhuber, 2008) The main idea behind consumer buying behaviour and new generations dominating the buying segments, offline and online is that they prefer products that serve a purpose but are most important for how they remain. (Ravi,2017)

Pricing strategies:

1. **Competitive pricing strategy –** Competitive pricing refers to the pricing technique that is influenced by competitor firms in an industry. Competitive pricing strategy will focus on setting the prices in relation to the competitors (Anderson, 2010).The price mark is set according to the market or niche and this practice is highly prevalent in industries where homogenous products or similar products are sold (Blythe 2005). There are multiple ways to use the set market price to our advantage. When the firm sets a lower price than the competitor's goods or services, it turns out to be lucrative for the companies that can easily capitalize the economies of scale. Here the loss leader strategy is implemented where the newly introduced product sets a lower price to compete and gain new customers and shift the consumer preference to their company. Setting higher prices than the competitor price mark is used when the good or service has more to offer than the competitor company’s goods, terming the product premium sometimes works to attract a certain demographic of consumers for fmcg products that are consumed regularly. Businesses offering an equal price often differentiate their products by promotions or unique products.
2. **Cost based pricing. –** Cost oriented pricing strategies mainly focus on cost of production and evaluate the prices just in the framework of costs. It is calculated by the cost of production of a product and adding profit percentage to the price to determine the last price. The data is easily available and can be analysed faster without taking other factors into consideration like competition or willingness to pay. (Hinterhuber, 2008) The cost-plus pricing method involves calculating the total cost of producing and distributing a product and then adding a predetermined profit margin to determine its selling price, without necessarily considering current market demand. (Ezeudu, 2005). The added margin, often referred to as a markup, is usually expressed as a percentage. It represents the difference between the cost to make the product and its final retail price. (Farese, Kimbrell, and Woloszk, 2003).
3. **Value based pricing –** This is a form of pricing strategy that will assist in setting the price of the product in accordance with the value that customers perceive in the good or service. (Ross,2003)
   - **Psychological pricing –** A consumer-based pricing strategy focuses entirely on understanding the customer’s mindset, drawing from price psychology and behavioral economics. In this approach, price isn't just a number; it acts as a signal, conveying information about the product’s quality, value, and positioning. To make this strategy effective, it’s essential to analyze the behavior of different consumer segments individually. These groups can be categorized by demographics such as age, income level, or lifestyle, depending on the nature of the product and its pricing. In the sections ahead, we will explore consumer behavior more closely to understand how it influences pricing decisions and purchase patterns.. Behavioural economics is a sub part of economics

that investigates human behaviour to explain decision making. Psychological pricing refers tothe prices that appeal to the customer ‘s emotions and preferences, during a given period of time. (Blythe 2005).

- **Perceived value pricing –** Customer perceived value pricing considers the evaluation done by the actual users about what's right and wrong in terms of product quality and service. The core foundation of all marketing efforts is the customer, whose high value is one of the main factors driving consumer spending. If customers believe that the ratio of their output to inputs is comparable to the ratio of output to inputs that the company experiences, they feel more equally treated. (Oliver & DeSarbo, 1988). Most of the perceived value pricing can arise from evaluation quality and price relationship, if quality and price are fair, customers will perceive it as the right product.

Pricing strategies for new products:

Managers in charge of pricing usually find it difficult to settle at a lucrative price while launching a product. While setting a price, breaking down willingness to pay and value drivers can be a great start, for professional markets. An existing market would already have a base price (Singh, 2019). A few noticeable strategies are listed below.

- **Penetration pricing –** a pricing strategy used heavily for newly introduced goods, involves setting a low price at the start, lower than market costs to penetrate existing markets or a new market. Telecommunication providers relied on this strategy a few years ago to sustain their new subscribers for a long period of time. This type of pricing is preferred if one wants fast market awareness for its products and increases their market share. Platforms like skype, google, amazon engage users by setting a lower initial price. A firm, to apply this strategy must have manufacturing or a sustainable competitive advantage that would result in the company ‘s unit. These days, the amount of products sold online makes a product life cycle short which further leads to increase in competition from rival brands selling almost similar products. (Baye et al 2007).
- **Price skimming –** This pricing strategy, often referred to as price skimming, involves setting a high initial price for a product in order to maximize revenue from consumers who are willing to pay a premium. It is typically supported by strong promotional efforts to create buzz and justify the higher price point (Lamb et al., 2004). In this approach, companies may make fewer sales initially, but each sale is highly profitable. This strategy often targets consumers from higher socio-economic groups who are eager to access the latest innovations and are less sensitive to price (Kotler et al., 2001). A common example is the premium pricing of the latest Samsung smartphones, which attract customers who value cutting-edge technology and are willing to pay more for early access. By adopting this strategy, companies can achieve higher profit margins and boost overall revenue, especially in the early stages of a product launch (Taylor, 2009).

Impact of COVID 19 on FMCG sector:

The COVID-19 pandemic caused two types of shock to the country, a health and an economic shock, the latter adversely affected various industrial and food sectors in India. Effective and timely containment of the viral disease comes at a cost of the country’s economy to malfunction. FMCG sector being one of the major sectors decelerating, had to immediately cope up with changing trends in consumer tastes and the economic condition. (Tirpude, 2021) pandemic also accelerated the digital transformation of the FMCG sector, leading to the emergence of subscription-based models for essential items like groceries and hygiene products. Companies like BigBasket and Grofers introduced recurring subscription plans, offering products at lower rates in exchange for customer loyalty. This innovative pricing strategy helped stabilize demand while fostering long-term relationships with consumers.

New pricing trends in FMCG market

Another important trend is the adoption of AI-driven predictive pricing models. These systems analyze historical sales data, competitor pricing, and seasonal demand fluctuations to automatically adjust prices in real-time. This approach allows FMCG companies to stay competitive while maximizing profitability. For instance, Hindustan Unilever Limited (HUL) has successfully implemented AI-based pricing solutions to streamline their pricing strategies across diverse markets in India.

1. Shrinkflation- Shrinkflation is the practice followed by some retailers of reducing the size of the product at the same price as before. It is mainly used during times of increased inflation to help companies realize costs of transportation, labour, raw materials etc. (Durbin, 2022) The stealthy tactics involved in shrinkflation, inflation’s ugly cousin, benefits firms, and retailers to maintain a profit margin during rising input costs (Liberto, 2021) In India, especially rural areas, “down-switching” or shrinkflation is prevalent where population is more price sensitive, simultaneously, city population face shrinkflation tactics in FMCG products because of their high GDP per capita and less prices sensitivity. (Durbin, 2022) Noodle brands like Preeti noodles and Wai Wai used to come in 75-gram pack but were reduced by 15 grams at the same price. (Parsain and Pandey, 2022) A case of illegal cocoa trading has caused a rise in chocolate prices and other products made with cocoa, which led to downsizing chocolate packs, like Toblerone. In 2016, Toblerone’s shape changed a bit and there were more gaps in the alps, the price did not go down but the weight was reduced by 20 grams.
2. Skimpflation – While skrinkflation includes reducing the quantity of the product, skimpflation is hampering the quality

of the product and using cheaper raw materials during the production process. Restaurants have been using the phrase, “menu engineering” usage of less expensive components and cutting down on the quality but not the price. Prices continued to surge and consumer’s would sometimes not stop purchasing from the brand because finding an alternative takes up more time and research. Reformulation of products is highly prevalent in FMCG goods especially during the time of inflation when companies want to cut down on expenses during production and recover them from selling the goods at the same profit margin.

Changes in consumer purchasing behaviour:

Myriad of consumers prefer clear prices and not cloudy claims and faulty products. Transparency is crucial to gain consumer trust and brand loyalty, which plays a huge role in the fmcg competitive market where there are plenty of alternatives available when it comes to products consumed. Process of purchase decision starts with the initiators, that request a purchase of any product, followed by the users, influencers who influence the buying decisions in economies, next are the deciders, a product or service's requirements are decided by the deciders, while planned buyer actions are approved by the approvers in the next stage followed by the actual buyers, and lastly gatekeepers who gatekeeper items and have power in their hands to give away all of this information. (Phillips, 2007) Customers become more price sensitive as a result of their increased price sensitivity, especially when they actively participate in the purchasing process and learn more about the worth of the goods or service (Stoel et al, 2004). Customers often go through a product evaluation stage where they examine the product or service bought from different brands and narrow down to a certain criteria of evaluation. (Agwu and Carter 2014) Post purchase evaluation often influences future decisions taken by consumers, which ultimately leads to the behaviour of purchasing a particular brand or type of product for a long time. Sometimes companies deliberately make the product unusable or disposable after a point of time to increase sales, a strategy not always recognised by the buyers. In a practice known as deliberate obsolescence, most businesses engage in this. (Saylor 2009. Relationship marketing plays a key role in building brand loyalty. When implemented effectively, it not only helps retain customers but also leads to increased revenue, lower costs, and stronger financial performance. This ties into the earlier points by highlighting the long-term benefits that come from nurturing customer relationships, often referred to as the full "lifecycle of earnings" from a customer (Egan, 2001; Reichheld, 1996). Customers offer value beyond their direct purchases; their actions—such as recommending the brand, providing feedback, or participating in product development—add additional worth to the company. These forms of customer engagement can take different shapes, including word-of-mouth referrals, co-creating products or services, and even constructive complaints that help improve offerings (Bijmolt et al., 2009).

Laws of price sensitivity in consumer behaviour and factors that affect the consumer decisions :

- **Price-quality effect:** Price quality effect shows the direct relation between higher the price higher the quality mindset of consumers (Lichtenstein et al 1993) Products of these types are usually high quality luxury items or image products, like status goods.
- **Reference price effect:** The perceived options may differ depending on the customer category, the occasion, and other elements. This is with reference to perceived alternatives of a product.
- **Difficult comparison effect:** Unlike the above mentioned effect, here customers are not as price sensitive to a product when its reputable brand, and they have difficulty comparing it to alternative products. (Nagle et al 2002)
- **Switching costs effect:** According to this rule, customers are less price sensitive when weighing their options when the cost of switching providers for a given product is higher (Yang et al 2004).
- **Expenditure effect:** In India, unemployment is a major problem which usually leads to no or low income, this in turn makes the consumers more price sensitive. This is the main idea of expenditure effect.
- **End-benefit effect:** End benefit effect usually states that the overall relationship a consumer has with a purchase is derived demand, and another aspect of it is price promotion cost, which is simply the total cost accounted at the end that helps to produce end components. If the end components are smaller in number, buyers are usually less sensitive. (Bruner 1988).
- **Shared-cost effect:** Shared cost effect is about consumer mindset and how they will be pleased to buy a product at a smaller portion of the purchase price, can be seen as discounts but it usually counts as a loss to the company. (Holden et al 1998)
- **Framing effect:** Oftentimes, buyers get price sensitive when they frame the price as a loss, not a foregone gain which can also be explained how they feel more sensitive when the price is paid seperately and not in the bundle, like discounts. (Naple et al., 2002).
- **Fairness effect.** Consumers tend to become more sensitive to a product’s price when it falls outside what they perceive as "fair" or "reasonable" in relation to the context of the purchase (Bolton and Lemon, 1999). If the price is seen as either too high or unexpectedly low compared to their expectations or the situation, it can significantly influence their buying decisions and perception of value.

The future of pricing strategies

- **Online price disparity** -- Online markets are highly dynamic, with competition constantly shifting as consumers search for specific products and the number of buyers and sellers fluctuates on a daily basis (Agwu and Carter, 2014). This ever-changing environment creates plenty of opportunities for businesses to experiment with pricing strategies. Companies can test different price points by either adjusting prices for all customers over time or by offering varied prices to different groups of consumers at the same time, helping them better understand consumer behavior and optimize pricing for maximum impact. (Faith, 2014) E-retailers have lower prices as compared to retailers using many channels including online and offline since they need to show the same pricing levels across all channels. The growth in the online sector and web 2.0 is encouraging consumers to be more price aware and know more about price comparisons. While setting prices in an online platform, there are various disparities that affect the final prices which need to be taken care of. In the future, reduction of trade allowances, reduction in costs of inefficiencies and more flexibility in terms of changing trends needs to be opted by firms to build a versatile and profitable distribution of perishable goods.
- **Centralization of supply chain** – Large-scale retailers are optimizing the supply chain structures, promoting retail consolidation to reduce intermediary costs that occur with distribution channels. An example would be McDonald's that purchases through a central office where the central office has power and constraints the supply channels. Manufacturers pay a huge sum of allowances with a large retail line, while with fewer retailers, the selling costs are reduced. Consumers' perspectives on retail settings and how they use cues like promotions into their purchasing decisions have received less attention.(Kalyanam et al., 2010)
- **Dynamic pricing -** Dynamic pricing is a strategy where prices fluctuate based on factors such as time, market conditions, and consumer preferences. It involves continuously adjusting prices to align with the specific needs and behaviors of individual customers and varying situations (Kotler and Armstrong, 2008). Within dynamic pricing, there are two key models to consider:
- **Price Discovery Mechanisms**: In this model, prices are determined through interactions between buyers and sellers, often seen in auctions or bidding platforms. Here, the final price emerges from the negotiation or competitive bidding process.
- **Price Posted Mechanisms**: In contrast, this model involves the seller setting and posting prices, which may change frequently in response to demand, competition, or other market factors. Consumers can either accept the posted price or wait for adjustments, but there is no negotiation involved.
- Both approaches aim to maximize revenue by adapting to real-time market dynamics and customer behavior.
- , the first one, consumers input the final setting price such as eBay. With price-posted mechanisms, the company oversees setting the price but there are changes. (Elmaghraby and Keskinocak, 2003)
- **Optimization of prices –** This method involves using mathematical models like linear regression to calculate price changes in the consumer market. Manual analysis takes time and so the advancement of technology has provided a huge benefit to companies to use machine learning models that can define optimal prices by predicting price elasticities of multiple goods within minutes.These calculations enable internal marketing and product teams to experiment more daringly with entry-level rates and discounts because they can more accurately predict the impact on demand and sales. Referring to a systematic model that statistically reviews the pricing methods and data mining is the future of monitoring prices and the changes in consumer behaviour. The use of rule-based pricing methods like markup or seasonal pricing is becoming less common among more knowledgeable sellers. Technological advancements have enabled companies to take up price optimization technique ; (Tanya, 2015)

3. FINDINGS

A deeper dive into consumer behavior reveals that psychological pricing plays a more significant role in the Indian FMCG sector than previously assumed. Techniques such as charm pricing (setting prices at ₹99 instead of ₹100) and the decoy effect (offering three different price points to steer customers toward mid-range products) are increasingly influencing purchasing decisions. Moreover, regional and cultural factors play a pivotal role, with consumers from different states displaying unique sensitivities toward price changes due to varying economic conditions and cultural spending habits.

Findings of the research conclude that pricing is a crucial element that affects consumer purchasing decisions for FMCG products in India as consumers are increasingly getting price sensitive. Focusing on key principles of behavioural economics, assuming that consumers are rational thinkers, they develop a price acceptance over the years. Effective strategies can help the firm achieve profitable results.

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Research limitations:

This research paper focuses on consumer behaviour of only the price in FMCG sectors, which is a limitation as there could be various factors affecting consumer decisions and the growth of a firm.

Additionally, this study does not account for the psychological influences of price perception across different socio-economic strata. While urban consumers may respond positively to premium pricing due to the perceived exclusivity of a product, rural consumers may show more price sensitivity. Future research could also focus on the long-term effects of price wars between large FMCG brands on market stability and consumer loyalty in India.

Practical Implications: This research can have serious implications while monitoring consumer behaviour change towards price changes. It can be beneficial to retailers and FMCG industries to formulate pricing plans. Using cutting-edge software, pricing strategies enable retailers in FMCG industries to improve bottom-line metrics.

Retailers and marketers could also explore dynamic pricing algorithms tailored for mobile users, as mobile commerce (m-commerce) continues to grow exponentially in India. Customizing prices based on factors such as user location, browsing history, and previous purchases can significantly enhance conversion rates. For example, a leading e-commerce player in India used personalized discount codes based on user engagement metrics, resulting in a 30% increase in repeat purchases.

Price of a commodity varies at different stages of the product life cycle and it is also affected by various external environment matters. Pricing is always a crucial component of marketing. Price is the biggest factor determining the rise and fall of a company or product at its early and downfall stage in the market. In addition to focusing on communicating value to customers through prices, firms should keep an eye out for competitor prices and examine how much it affects the purchase of their products. Using cutting-edge software, pricing strategies enable retailers in FMCG industries to improve bottom-line metrics. As today's consumers seek good value, the importance of pricing decisions in the purchase of goods and services is growing also because it directly affects the goals of the organisation, price is the easiest and quickest variable to change. The Indian market consists of buyers and sellers that take price into account first, as compared to other countries. By confirming the suggested marketing and pricing tactics in India and putting the suggested model to the test of consumer purchasing patterns, this study fills a research need.

4. CONCLUSION

As the industry continues to evolve, managers should also prioritize ethical pricing practices, ensuring that profit-driven strategies do not exploit consumer vulnerabilities. Developing inclusive pricing models that cater to both urban and rural consumers can significantly broaden market reach. Furthermore, incorporating consumer feedback into pricing decisions using real-time surveys and social media listening tools can lead to more customer-centric pricing strategies that enhance brand loyalty over time.

This research paper was a thorough study about major pricing tactics and it concludes the outcomes received by each. FMCG Sector is the fourth largest sector in India, always sensitive to consumer choices and therefore, industry changes need to be quickly analysed as soon as possible, to tackle future complications (Tirpude, 2021). The buying behavior of middle-class families in India is often heavily influenced by discounts and promotional offers provided by retailers. As the FMCG sector caters to a wide range of customers across different demographics, it’s becoming increasingly important to stay in tune with emerging trends, especially in the face of rising inflation and globalization. Companies need to develop thoughtful pricing strategies—or a combination of strategies—that can help boost product demand at any stage of its life cycle.

It’s also valuable to explore the relationship between emotional and cognitive factors in consumer behavior, such as motivations, needs, and past experiences, and how these translate into actual purchasing decisions. Pricing plays a crucial role in the marketing mix because, unlike other elements that require investment, it is the only one that directly generates revenue (Agwu and Carter, 2014). Compared to other aspects of marketing, pricing is also the most flexible, as changes can be implemented quickly in response to market conditions. By applying the right pricing strategies—particularly for products people buy regularly—businesses can increase their revenues, both in the short term and over the long run.

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