

## **A STUDY ON IMPACT OF PRICING STRATEGIES ON PROFIT MARGINS AND BUSINESS SUSTAINABILITY WITH REFERENCE TO ULTRATECH CEMENT**

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### **ABSTRACT**

Price has a significant impact on a company's earnings. The pricing must match the perceived value to the target market and not be too high or cheap. Sales chances will be missed if customers believe the pricing is too expensive. Revenue is lost when sales are lost. Customers could think the product is a fantastic deal if the price is too cheap, but the business might not make enough money. Occasionally, as with services, a price that is excessively cheap may make the product seem less than reliable and result in less sales for the business. It As this section demonstrates, managers use a variety of pricing tactics when deciding on a product's price. Pricing new items involves the use of price skimming and penetration pricing; older products may also benefit from the use of leader pricing and bundling. Price skimming has four significant benefits. First, setting a high starting price might help determine what consumers are prepared to spend. Second, the starting price may be reduced if customers think it is too expensive. Third, a high starting price might convey a sense of status and quality. Fourth, customers can believe they are receiving a good deal if the price is subsequently reduced. The drawback is that competition is heightened by high costs

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### **1. INTRODUCTION**

Price is the value that is put to a product or service and is the result of a complex set of calculations, research and understanding and risk taking ability. A pricing strategy takes into account segments, ability to pay, market conditions, competitor actions, trade margins and input costs, amongst others. It is targeted at the defined customers and against competitors.

A pricing strategy is a model or method used to establish the best price for a product or service. Pricing strategies help you choose prices that maximize profits and shareholder value while considering consumer and market demand.

If only pricing was as simple as its definition. However, there's a lot that goes into the process.

Pricing strategies take into account many of your business factors, like revenue goals, marketing objectives, target audience, brand positioning, and product attributes. They're also influenced by external factors like consumer demand, competitor pricing, and overall market and economic trends.

It's not uncommon for entrepreneurs and business owners to skim over pricing. They often look at the cost of their products (COGS), consider their competitor's rates, and tweak their own selling price by a few dollars. While your COGS and competitors are important (as you'll see in the various models below), they shouldn't be at the center of your pricing strategy.

The best pricing strategy maximizes your profit *and* revenue.

Pricing is one of the major elements of the marketing plan. It enables to differentiate a product or service from another one of similar characteristics. Pricing decisions derive from the underlying objectives and best-suited strategies. The elements of pricing objective include profit maximization, revenue maximization, quality leadership, quantity maximization and survival (Roth, 2007). Pricing objective is focused on three factors, i.e. nature, the desired level of attainment and the associated time horizon. Pricing objectives of service organizations are profit maximization, sales maximization, market share maximization, market share increase, return on investment (ROI), price differentiation, price stability in the market, sales stability in the market, discouragement of new competitors, maintenance of existing customers, long term survival (Avlonitis & Indounas, 2005). The underlying factors that determine a company's price decisions can be categorized as internal factors and external factors. Internal factors include company's marketing objectives, marketing mix strategy, and costs; whereas external factors consist of market environment, demand, competition (Khoso, Ahmed, & Ahmed, 2014).

The most common price strategies are high and low price strategies, and adjustable strategy. The high price strategy entails price setting on the basis of the value of the product as perceived by customers. Adjustable strategy identifies strategies like price discrimination strategy, price skimming, discount strategy, penetration pricing and yield management. Market segmentation or price discrimination strategy depends on customers' different levels of needs and their purchasing ability. Among the other popular pricing methods, discount strategy indicates discount sale which states that a set of items are sold for a limited period. Another popular pricing strategy is price skimming, where a product is sold at a high price initially but is lowered with time. On the contrary, penetration pricing refers to a setting where initial price is lower than later as this type is focused on cost reduction over time and discouragement of competitors' entry. Lastly, yield management or revenue management focuses on sales anticipation as well as competitors' behavior in order to generate revenue (Dolgui & Proth, 2010). Other less popular pricing methods include general pricing approaches like cost-plus pricing, break even pricing, value based pricing, and competition based pricing.

## **OBJECTIVES**

A pricing objective underlies the pricing process for a product, and it should reflect a company's marketing, financial, strategic, and product goals, as well as consumer price expectations and the levels of available stock and production resources". Oftentimes, the pricing objectives of most companies include the following:

Different companies will have different objectives while deciding on the price strategy:

- ◆ To determine how prices of the new product affect its demand, position and market share.
- ◆ To find out how consumers respond to different prices of different quality of products.
- ◆ To Know the pricing strategies necessary to achieve the companies sales goal with regard to ULTRATECH CEMENT.

- ◆ To evaluate the pricing strategies of the company in increasing patronage for ULTRATECH CEMENT
- ◆ To determine how prices can enhance the profitability of the company's product.
- ◆ To increase market-share within a market
- ◆ To defend an existing market from new entrants
- ◆ To enter a new market etc
- ◆ Boosting short run profits
- ◆ Maximizing the company's monthly sales volume
- ◆ Being able to match the prices set by the competitors
- ◆ However, it is essential to remember the each pricing objectives needs a various strategic price-setting plan to ensure the company is able to achieve their business goals. One of the most common reasons why there are a lot of newbie entrepreneurs fail is that they price their products and/or services too low to attract customers to maximize their pricing strategy.

#### **NEED AND IMPORTANCE OF THE PROJECT**

- 1) Price in combination with promotion becomes a strong tool for influencing buyers to buy products. It interests the buyers and highlights the image of the brand to increase sales. Sometimes organisations focus on other marketing mix elements by keeping the price constant based on recovering costs at certain percentage.
- 2) Pricing also determines standard of living. The lower the prices in the economy, the higher is the purchasing power in the hands of consumers. Price reflects purchasing power of the market.
- 3) Price is a strong weapon against competitors.
- 4) Price determines the profits on sales. It is a basis of generating profits. As it is the most flexible of the marketing mix variables, organisations exercise this freedom very often for defensive or offensive pricing strategies
- 5) Price influences two types of management decisions. First is setting price for a new product and second, adjusting the price of existing products basis the market situation, costs, etc.
- 6) Depending on the marketing program, organisations use Price in different ways – Demand oriented strategy, cost oriented strategy, competition oriented strategy, and also because of ethical constraints.
- 7) Price should be carefully set basis its combination with the other marketing mix variables. The price on a product affects the market of another product in the product line from the same manufacturer. For example, a soap priced similar to another soap from the same manufacturer which has different features will have impact on the sales of each other, and the customer will have difficult time in making a choice. Price setting should be according to the product features and should accompany strong promotional activities like discounts, education of product features, etc.
- 8) Price should be set in relation to the delivered value and perceived value of the product -Price also communicates the quality of the product. If a product is priced very low and its features communicated are better than the competitor, the customers may think that the product has low quality. In such cases organisations have to invest heavily in promotional activities and communicate clearly highlighting the services associated like warranties, brand value, etc.
- 9) Prices should be set in coordination with distributors. Most organisations strive to give higher profit margins to distributors as the distributors like wholesalers and retailers too aggressively promote the products to consumers.

- 10) High promotional activities result in costs. Organisations have to set price basis the costs associated to advertising, public relations, etc. The organisations have to carefully analyse the promotional expenditure and decide if it will result in production and marketing economies of scale. This will reduce the unit cost and give freedom to make price changes.

#### **SCOPE OF THE STUDY:**

- The study is confined to the study of Pricing strategies adopted by the company.
- The reasons is conducted in developed only
- The period of study is 45 days.

#### **LIMITATIONS**

The following points highlight the nine major limitations of the price strategy. Some of the limitations are:

1. Perfect Market is an Unreal Market
2. Sellers Influence Prices in the Real World
3. Price Adjustment is not Automatic
4. Consumer's Sovereignty is Unreal
5. Competition Leads to Monopoly
6. Wastage of Resources May Occur and Others.

#### **2. RESEARCH METHODOLOGY:**

Market methodology should include anything you need to know in order to formulate strategy and make business decisions. Information is available in the form of statistical economic and demographic data from clients, research companies and professional associations members interact with the organization. This is called **secondary research** and will require some interpretation or manipulation for own purposes. Additionally we have carry out our own research through customer feed-back, surveys, questionnaires and focus groups (obtaining indicators to wider views through discussion among a few representative people in a controlled situation). This is called primary research, and is tailored to your precise needs. It requires less manipulation, but all types of research need careful analysis. Be careful when extrapolating or projecting. If the starting point is inaccurate the resulting analysis will not be reliable. The main elements typically need to understand and quantify are:

- customer profile and mix
- product mix
- demographic issues and trends
- future regulatory and legal effects
- prices and values, and customer perceptions in these areas
- competitor activities
- competitor strengths and weaknesses
- customer service perceptions, priorities and needs

#### **Sources of Data:**

To perform the Research study by Researcher, the sources of data obtained are:

**Primary research** is recommended for local and niche services. Keep the subjects simple and the range narrow. Formulate questions that give clear yes or no indicators (ie avoid three and five options in multi-choices) always understand how to analyze and measure the data produced. Try to convert data to numerical format and manipulate on a spreadsheet. Use focus groups for more detailed work. To be wary

of using market research organizations as this can become extremely expensive. If we do the most important thing to do is get the brief right.

**Secondary Data:**

This data is obtained directly from the company in the form of brochures, charts, diagrams, document and other forms.

**Data Collection Tool:**

**Questionnaire:**

This is one of the data collection tools. It is quite popular particularly in case big enquires. It is being adopted by private individuals, research worker, private and public organization and even government. In this method, a questionnaire is issued to the persons concerned with a request to answer the questions and return the questionnaire. A questionnaire consists of number of questions printed or typed in a definite order or a form or set of forms

. The researcher used the structured questionnaire in which the questions were:

Open-ended questions

Close-ended questions

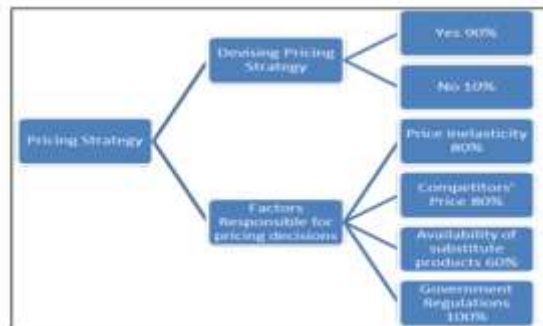
Dichotomous questions

Multiple choice questions

Factors that Affect Pricing Decision

So before you make a final decision to reduce the prices of the products and/or services that your company is offering, it is important to take some time to research and contemplate whether you are not putting the overall well-being of your business at risk or not. As an entrepreneur or a marketer, it is essential to conduct a research or survey and study the collected information before deciding to set the pricing of our products and/or services in your target market.

Sometimes, having a pricing objective for your business is not enough because there are a lot of factor that you must consider before setting the prices. Such factors include the cost and demand of the product and/or service, the customer demographics, the external environment, nature of the products and/or services, product or shelf life, as well the method of promotion and distribution. Now, let us examine and analyze each of the factors that were mentioned and understand what they entail.



### 3. DATA ANALYSIS AND INTERPRETATION

#### 1. Pricing strategy of ULTRATECH CEMENT

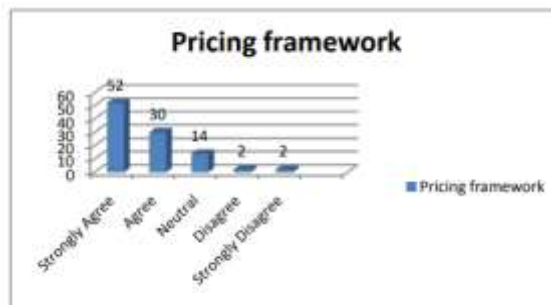
	Pricing Strategy
Monopoly	83
Oligopoly	3
Monopolistic	14



**INTERPRETATION:** From the above table, it is understood that selection of pricing strategy entails that 83% respondents opt for monopoly pricing strategy, only 3% choose oligopoly and 14% go for monopolistic pricing strategy. After observing the organization's internal environment and product line, selection of monopoly market reduces the scope of new entrants as well its sustenance.

#### 2. Pricing framework

	Pricing framework
Strongly Agree	52
Agree	30
Neutral	14
Disagree	2
Strongly Disagree	2

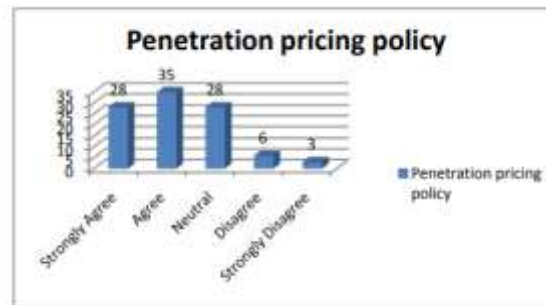


**INTERPRETATION:**

52% respondents are strongly agreed to this concept and 30% respondents also choose this. 14% respondents are neutral, however only 2% respondents are not agreed or disagreed as well as strongly disagreed. So most of the respondents believe that stable pricing framework is able to bring prospective customers for the good image of the organization.

### 3. Business penetration pricing policy

	Penetration pricing policy
Strongly Agree	28
Agree	35
Neutral	28
Disagree	6
Strongly Disagree	3



#### INTERPRETATION

Adoption of penetration pricing policy expresses that only 35% respondents are agrees to this approach, while 28% have opinions of 'strongly agree'. In this regard, 28% employees are given their responses neutrally, 6% are disagreed to this concept and 3% are strongly disagreed.

### 4. Skimming pricing policy would be detrimental to the eventual growth and development of the company

The policy of pricing to sell consistently at a competitive price

**TABLE:** Selling pricing policy at competitive price

	Selling pricing policy at competitive price
Strongly Agree	27
Agree	36
Neutral	29
Disagree	4
Strongly Disagree	4



#### INTERPRETATION



Most of the respondents nodded in agreement which is reflected by 27% respondents who strongly agreed, 36% agreed to this view. On the other hand, 29% people are neutral; Further, only 8% respondents are disagreed with the statement.

#### **4. FINDINGS**

1. It is understood that selection of pricing strategy entails that 83% respondents opt for monopoly pricing strategy, only 3% choose oligopoly and 14% go for monopolistic pricing strategy. After observing the organization's internal environment and product line, selection of monopoly market reduces the scope of new entrants as well its sustenance.
2. 52% respondents are strongly agreed to this concept and 30% respondents also choose this. 14% respondents are neutral, however only 2% respondents are not agreed or disagreed as well as strongly disagreed. So most of the respondents believe that stable pricing framework is able to bring prospective customers for the good image of the organization.
3. Adoption of penetration pricing policy expresses that only 35% respondents are agrees to this approach, while 28% have opinions of 'strongly agree'. In this regard, 28% employees are given their responses neutrally, 6% are disagreed to this concept and 3% are strongly disagreed.
4. Most of the respondents nodded in agreement which is reflected by 27% respondents who strongly agreed, 36% agreed to this view. On the other hand, 29% people are neutral; Further, only 8% respondents are disagreed with the statement.
5. It is found from the responses of the employees that 63% employees are agreed for the standardization or adaptation of the competitors' price whereas only 37% are not agreed to this approach. So the organization can adopt this pricing strategy to earn their competitiveness.
6. There is an association between the gender, age and level of satisfaction with the branded retail outlets among the respondents

#### **SUGGESTIONS**

- The price offered for ULTRATECH is need to be monitored due to the challengers arise and several consumers tend to find that has best price for value for them. So it is needed to do benchmarking on challengers' pricing strategy.
- Even though the consumers tend to find the biggest volume possible, it is needed to consider the diminishing marginal utility which will lead to lower consumer satisfaction if the portion given too much.
- For further research, the scope of research may expand bigger into the whole company target market, with more sample size so that it may cover up to one country preferences.
- Further research may come with the additional method or using another analysis technique, using mixed method for deeper problem analysis which will getting fit and lead to very reliable information that can be implemented for company

#### **5. CONCLUSION**

Finally, we conclude that regarding pricing strategies, determining the price for the company's goods and services is a crucial role and an important component of our business success. By knowing the difference between cost and price, you can determine which company charges the best and most appropriate price, which indicates that customers are willing to pay that amount for your goods, thereby increasing sales volume and profit margin. Furthermore, multiple pricing techniques may be used at different periods to accommodate changes in product life cycles, market circumstances, and marketing tactics.



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