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PRICING POLICIES IN BUSINESS PRICING STRATEGIES

The price paid for goods and services goes by many names: tuition – for education, rent for an apartment, interest on a bank credit card, a premium for car insurance. Pricing is so important to marketing that it has been singled out as one of the four Ps. Pricing is also a critical ingredient in consumer evaluations of the product. From the marketing viewpoint, price is the money or their considerations (including other goods and services) exchanged for the ownership or use of a good or service. Price is one way in which the seller can differentiate his or her offer from those of competitors. Price is also a critical decision made by a marketing executive because price has a direct effect on a firm's profit. This is apparent from a firm's profit equation: profit = total revenue-total cost or profit = (unit price*quantity sold)-total cost.

Thus, pricing decisions influence both total revenue and total cost, which make pricing one of the most important decisions marketing executives face. The importance of price in the marketing mix necessitates an understanding of six major steps involved in the process organizations go through in setting prices:

- to identify pricing constraints and objectives;
- to estimate demand and revenue;
- to determine cost, volume, and profit relationships;
- to select an approximate price level;
- to set list or quoted price;
- to make special adjustments to list or quoted price.

Marketing executives must also translate the estimate of customer demand into estimates of revenues the firm expects to receive. A demand curve shows a maximum number of products a consumer will buy at a given price. Demand curves lead to three related revenue concepts critical to pricing decisions: total revenue, average revenue, marginal revenue. Break-even analysis shows the relationship between total revenue and total cost at various quantities of output for given conditions of price, fixed cost, and variable cost. The break-even point is where total revenue and total cost are equal.

Four general approaches for finding an approximate price level for a product or service are demand-oriented, cost-oriented, profit-oriented, and competition-oriented pricing.

Demand-oriented pricing approaches stress consumer demand and revenue implications of pricing and include eight types: skimming, penetration, prestige, price lining, odd-even, target, bundle, and yield management. Demand-oriented pricing relies on the basic premises of supply-and-demand theory and on demand elasticity factors. The higher the demand, the more the business can charge for a given goods or service, even though the good or service and its costs don't change.

Cost-oriented pricing approaches emphasize the cost aspect of pricing and include three types: standard markup, cost plus, and experience curve pricing.

Profit-oriented pricing approaches focus on a balance between revenues and costs to set a price and include three types: target profit, target return-on-sales, and target return on investment pricing. In competition-oriented pricing method, there is no relationship between cost and price or demand and price.

Important decision faced by business-to-business firms in the marketing is manager's choice of what pricing policies to follow. The prices charged by the marketer are influenced by the different types of customers, the characteristics of the channel system, and the different geographic regions served. Initially, the business price setter must be concerned with "net price", which is the list price minus allowances for trade-ins and other cost-significant concessions made by the buyer, such as volume purchases and order pick-up versus delivery.

Examination of business practice indicates that most firms offer discounts of one form or another to their business customers. Furthermore, it would appear that for many firms, discounts are important components of their pricing policies. In theory, discounts are simply cost savings realized by the manufacturer and passed on to intermediaries. Discounts are reductions from list price that a seller gives a buyer as a reward for some activity of the buyer that is favourable to the seller. Discounts come in many forms with trade, quantity, seasonal, and cash discounts being the most prevalent.

To encourage customers to buy larger quantities of a product, firms at all levels in the channel of distribution offer quantity discounts, which are reductions in unit costs for a larger order. The two primary types of quantity discounts available are "noncumulative discounts", which are discounts taken on each and

every order made; and “cumulative discounts”, which are given on series of orders over a particular period of time.

We are accustomed to thinking of pricing as something done by the seller that it is difficult to think of pricing decisions coming from anyone other than a seller. Thus, a major factor in determining profitability of any product is establishing a base price. Cost, demand, and competition influence pricing policies and are important in establishing a base price for a product. Each factor is the basis for a different method of setting a base price of any given product.