

PRICING

7.1 INTRODUCTION

Pricing is the process whereby a business sets the price at which it will sell its products and services, and may be part of the business's marketing plan. In setting prices, the business will take into account the price at which it could acquire the goods, the manufacturing cost, the market place, competition, market condition, brand, and quality of product.

Pricing is a fundamental aspect of financial modeling and is one of the four P's of the marketing mix, the other three aspects being product, promotion, and place. Price is the only revenue generating element amongst the four P's, the rest being cost centers. However, the other P's of marketing will contribute to decreasing price elasticity and so enable price increases to drive greater revenue and profits.

Pricing can be a manual or automatic process of applying prices to purchase and sales orders, based on factors such as: a fixed amount, quantity break, promotion or sales campaign, specific vendor quote, price prevailing on entry, shipment or invoice date, combination of multiple orders or lines, and many others. Automated pricing systems require more setup and maintenance but may prevent pricing errors. The needs of the consumer can be converted into demand only if the consumer has the willingness and capacity to buy the product. Thus, pricing is the most important concept in the field of marketing; it is used as a tactical decision in response to comparing market situations.

The price of a product may be seen as a financial expression of the value of that product. For a consumer, price is the monetary expression of the value to be enjoyed/benefits of purchasing a product, as compared with other available items.

The concept of value can therefore be expressed as:

$$\text{(Perceived) Value} = \text{(Perceived) Benefits} - \text{(perceived) Costs}$$

A customer's motivation to purchase a product comes firstly from a need and a want example:

- Need: "I need to eat".
- Want: "I would like to go out for a meal tonight".

The second motivation comes from a perception of the value of a product in satisfying that need/want (e.g. "I really fancy a McDonalds"). The perception of the value of a product varies from customer to customer, because perceptions of benefits and costs vary.