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NEO PRICING STRATEGIES UNDER BUSINESS ECONOMICS

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ABSTRACT

The product pricing has been the key activity for any business or commercial decision. The cost budgeting has helped in the exercise of determining the true cost and market price of any particular product. The general principles of the economics have been vital in the adoption of the pricing guidelines by the business sector. The costing techniques have been based upon the accepted norms of the economics. This paper tried to focus on the general practices of the product pricing and their relevance in the changed circumstances as posed by the ever changing business environment.

KEYWORDS: - Product Pricing, Pricing Techniques, Business Economics, Costing

BACKGROUNDER

The cost determines the final market price of any product in any open market. But other factors such as competition, entry barriers, economies of scale etc have also been responsible for the decision making process as far as the product pricing is concerned. Various statistical and mathematical techniques have contributed to the cause of product pricing.

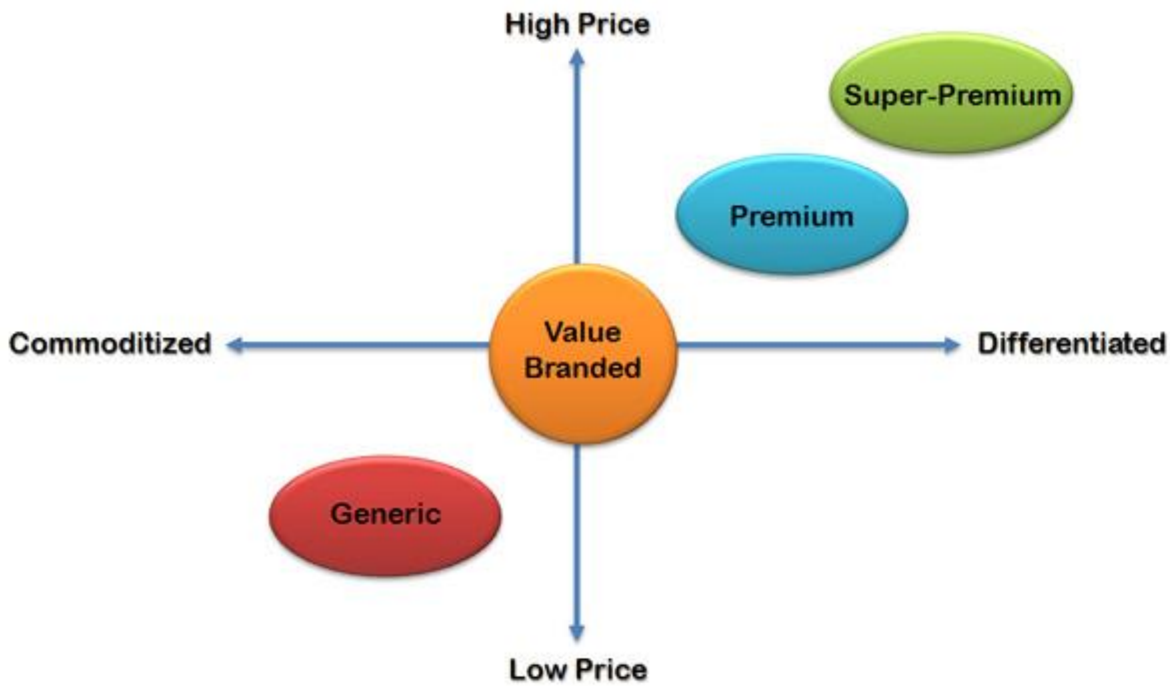
The liberalization of the developing markets has opened up the newer avenues for the domestic companies to go abroad and doing business. All this created the point of consideration of the corporate managers and business economists to develop the product pricing methods and strategies.

APPLICATIONS OF THE BUSINESS ECONOMICS IN THE PRICING STRATEGIES

The contribution of the economics has been legible when we talk about the costing and product pricing in the commercial parlance. The adopted techniques and strategies have been summarized herein below: -

- Sales maximization – Wherein the product is priced at low price in order to maximize the sales of the said product.
- Profit maximization- Wherein the product is priced in such a way that a handsome portion of the price is represented by the profit.
- Gain market- Under this strategy, the price is kept at minimum in hope of creating more and more demand of the product in the market wherein the competition forces are at full force.
- Price leaders- Under this strategy, the marketers charge premium price to leave the impression in the market that premium price comes with the premium prices.
- Loss leaders- In this strategy, the products are sold at cost and at lowest profits in order to survive in the market or to gain excessive market share.
- Price skimming- In this market theory, the product is priced at higher tag initially but later on in the changed market conditions the price is brought down.

The entire above mentioned product pricing strategies is based on the principles of the economics. Where there is demand, there is premium price. Where there is poor demand, there is discounted pricing. The principles of the economics are universal as far as the product pricing is concerned.



The above chart figures out the characteristics of the price determining exercise, wherein different categories of pricing are depicted. Generic to super premium class is mentioned in the chart. The low to high price band is accompanied by the common and differentiated segment of the market.

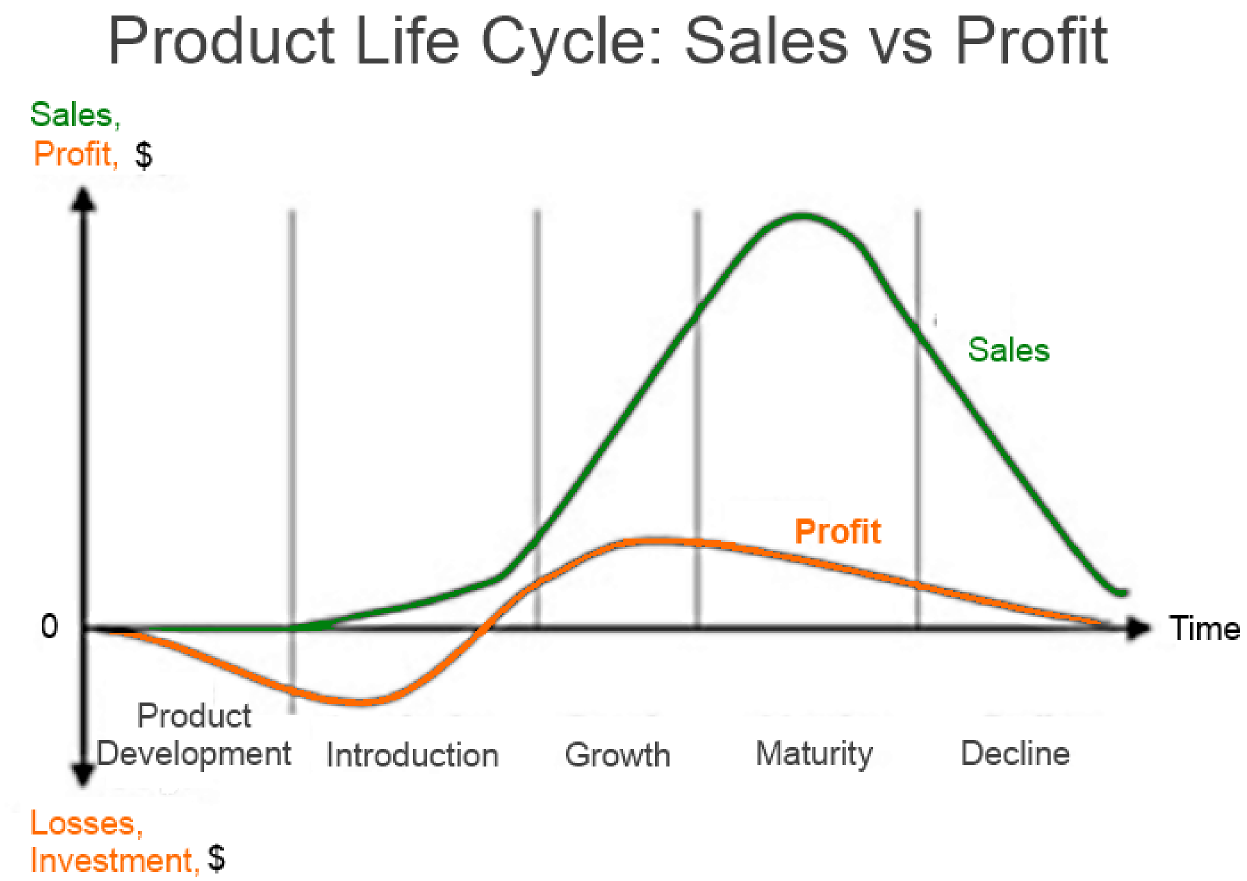
The super specialty of the pricing machinery as adopted by the commercial managers and business economists is the market full of competition and maturity. The stages of the business cycle also affect the pricing of products by the market managers.

The core competencies of the market leaders have also their own impact on the price determining exercise. The higher the competencies, higher the premium charged by the marketers. The costs involved in the production cycle are easily absorbed by the higher revenues in terms of increased turnover or sales. At the same time, the loss leaders have to carry forward their losses so as to have a chance to cover those losses when there is an opportunity of making profits in the high time of increased demand.

PRODUCT LIFE CYCLE AS DETERMINING FACTOR FOR PRODUCT PRICING

Along with other factors of the commercial consideration, the product life cycle has also the impact over the price discovery of the product. In the initial stages of the product life cycle, the more focus remains on the covering up of the costs of installation and allied costs. The inception stage demands for the costs to be covered up in order to bring more and more stability in the start-up business.

How the product life cycle affects the sales and profits is depicted in the following chart. It shows the trend across the product life cycle of a particular product.



As shown in the chart, the sales are steady and picking-up the momentum throught the introduction stage while the profits are covering the costs and showing downward trend.

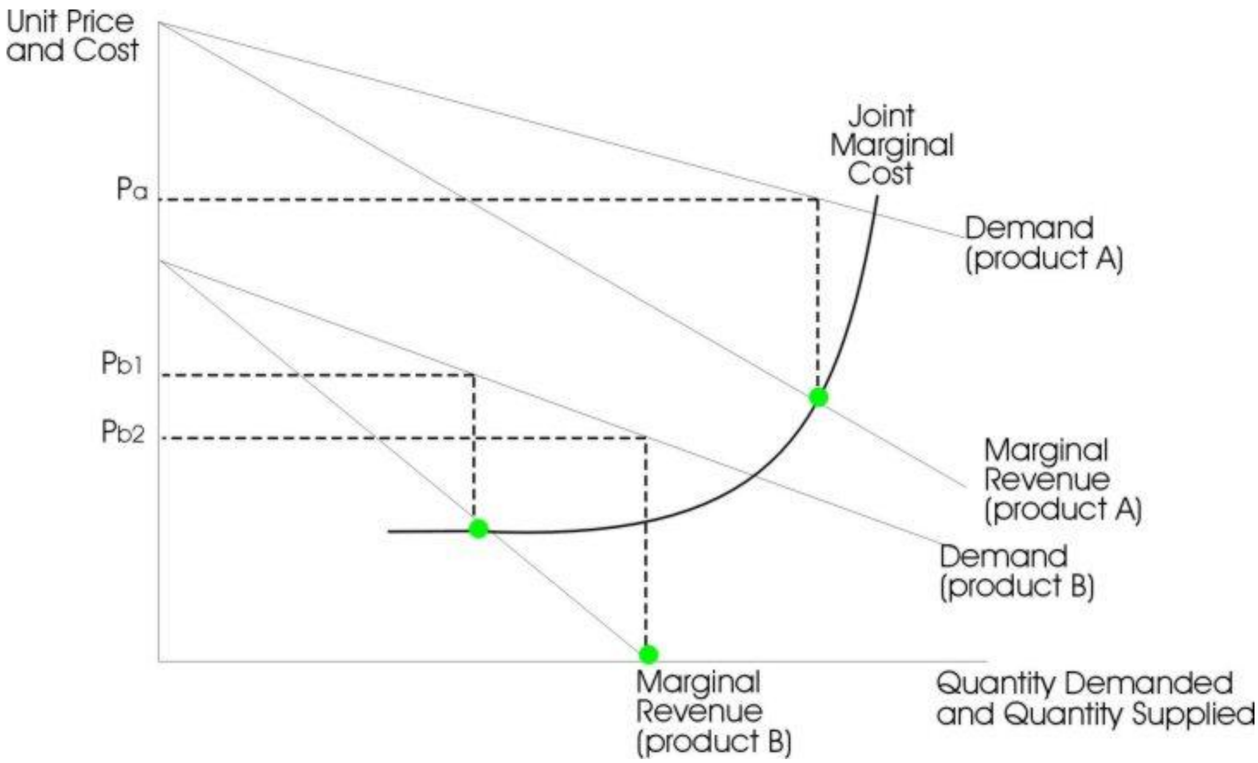
The trend of both sales and profits gains direct tagging in the growth stage of the product life cycle. In the maturity to decline stage, the sales starts to decline with the corresponding decrease in the profit as well.

It is thereby concluded that it is the product life cycle having universal applicability and consideration to depict the product performance independent of the price as determined by the product pricing theories of the business managers and business economists.

PRICING METHODS IN CASE OF MULTI PRODUCTS

When an organization is being manufacturing more than one product, the pricing techniques get changed so as to take advantage of the marginal costing methods. As per the marginal costing methods, the firm fixes the price as much as is enough to cover the marginal costs of the production processes due to increased volume of products. As per the notion, the fixed costs are deemed to be covered already by the first line of products. Even the apportionment may result in the lesser costs to be borne by a particular product when the process costs and incidental costs are lesser in the production of that particular product.

The adopted method of determining the price of the multi-product has been shown in the following chart:-



The chart specifies that the unit cost of the later product other than the primary product A remains to less than the costing of product A. It is due to the economics term of marginal effect. The fixed costs have already been apportioned and borne by product A. Product B stands to take the advantage of implied cost plus variable costs only.

CONCLUSION

In lump sum, it can be said that the pricing techniques whether profit leader or loss leader or market growth etc, all of them are based on the underlying rules of the business economics. The same have been successfully adopted and harnessed by the business managers over the periods. The business economics has proved itself to be of prime importance while taking the product pricing exercise on consideration by the business and trade firms worldwide. It has also been seen that the product pricing strategies vary from firm to firm. The globalization and peer competition has also impacted the pricing methods of the products. The leading perfection of the markets has also done a commendable job of helping in the fixation of the true price of the product in the presence of supplementary products at competitive prices across the market.

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