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Factors Affecting Product Selling Prices in Businesses from a Marketing Perspective

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Abstract
While the economy has demonstrated the importance of supply, demand, and market structure, marketing contributes to the practical considerations when businesses price their products. Pricing decisions are among the most significant and complex choices that marketing managers have to make. To determine an effective selling price, marketing managers must undertake a step-by-step process, from analyzing cost factors to pricing levels, performing comparative calculations to arrive at an optimal price, and constructing the final pricing structure. Prices are influenced by internal factors within the company as well as external elements. External factors affecting pricing decisions include competition, economic conditions, and other outside influences. Internal company factors encompass marketing-mix strategies, costs, and the company's marketing objectives.

Keywords: Selling Price, Influencing Factors, Marketing

1. Factors Outside the Business Affect Selling Price

- **Competition**

When setting product prices, the competitive environment is a factor that needs to be clearly identified. According to Kotler (1986) [4], it's important to consider the price and value of competing products. Moreover, a company's pricing strategy can impact the competitive landscape it faces. High prices with a high-profit strategy may attract competitors, while low prices with a low-profit strategy can deter them or push them out of the market. Therefore, consideration must be given to both current and future competition. Competitive pricing responses range from passive (no reaction) to matching price changes (undercutting competition). Blois and colleagues (2000) [2] argue that competitive responses depend on the nature of the competitive environment: market structure, market concentration level, and the existence of competitive advantages. Market structure is described by the number of buyers, the number of sellers, and the levels of product differentiation. Fewer buyers, more sellers, and less product differentiation mean brands lose much of their identity, and buyers' choices are primarily based on price, leading to intense competition. The origin of competitive advantage can stem from factors such as economies of scale and product structure. Competitive advantages may arise from factors like product quality, delivery, and design (Porter, 1985) [5]. If the competitive advantage is based on differentiation, competitive pricing is achieved because customers are willing to pay for that difference. However, if it's based on a low-cost strategy, maintaining a low price is crucial. Highly competitive businesses based on low costs will react to price changes and may engage in a price war but are more likely to survive. Fundamentally, as Kotler points out, businesses use pricing to position their relationship relative to competitors.

- **Economic Conditions and Various External Factors**

When setting prices, businesses must also consider various external environmental factors. Economic conditions such as inflation, interest rates, and the impact of economic recessions are decisive in pricing because they affect both the cost of producing products and consumers' perceptions of price and product value. Companies need to consider how pricing impacts the economy and how agents respond to different price levels. Businesses should set prices so that agents can maintain a reasonable profit margin, helping them sell products effectively. The government is a significant external factor that influences pricing decisions. Tax policies, competition regulations, etc. are policies through which the government affects pricing decisions. Therefore, pricing decisions must also be calculated within government laws to ensure price settings are within legal limits. Customers' psychological factors also influence product pricing. Many people use price as an indicator of quality. Imported products are often seen as having better quality compared to similar domestic products.

2. Factors Inside the Business Affect the Selling Price

- **The Marketing Mix Strategy**

Price is just one of the marketing mix tools that businesses use to achieve their marketing goals. The marketing mix includes the 4Ps factors (product, promotion, place, and price). Decisions on other marketing-mix variables, as per Kotler (1986) [4], can influence pricing decisions. Pricing decisions must be coordinated with other marketing-mix decisions to form an effective program. According to Nagle and Holden (1995) [6], managers need to understand the marketing mix, combine it, and leverage it through integrated decisions such as product design, distribution, promotion, and pricing. The main goal of the marketing mix is to satisfy customers by providing the right product or service with the right promotional policy, through the right distribution channels, and at the right price. Therefore, pricing cannot be isolated from the other 4P elements in the marketing mix. From these 4P factors, businesses can decide on an appropriate marketing strategy.

- **Costs**

According to Kotler (1986) [4], costs are crucial for setting price levels. Businesses aim to price their products to cover all expenses: production, distribution, and a desired profit margin. Managers should calculate the minimum price that includes the total production costs at a certain level of output and must carefully monitor costs to avoid exceeding those of competitors, as this could put the business at a competitive disadvantage. Blois and colleagues (2000) [2] also believe that cost is vital input information for pricing.

- **Business Objectives**

Setting goals requires a business to decide what it aims to achieve with a specific product. These goals play a crucial role in pricing decisions. Price setting must align with the company's overall objectives. A business might opt for one of several pricing objectives, including survival, maximizing current profits, market share leadership, or product quality leadership.
Survival: Businesses set survival as their main goal when they're in deep trouble with capacity issues, fierce competition, or shifting consumer demands. To keep the factory doors open, they might set lower prices, hoping to boost demand. In this scenario, profits take a backseat to staying afloat. As long as the product price covers variable costs and some fixed costs, a business can hang in there for a while. But survival is just a short-term objective. In the long run, businesses need to figure out how to add value or face going under.
Maximizing current profits: Many businesses aim to maximize their current earnings. This goal requires an estimate of demand and costs at different price levels, followed by setting a price that yields the highest profit. In every case with this objective, the focus is more on immediate financial outcomes than long-term performance.
Market share leadership: Other businesses are keen to lead in market share. To become a market leader, they set prices as low as possible. They believe that the business with the largest market share will enjoy the lowest costs and the highest long-term profits. Part of this goal is to pursue a specific market share increase. For instance, if a business aims to boost its market share by 20%, it will seek out pricing and marketing programs that achieve this growth.
Leading product quality: leading product quality will typically have a premium price to compensate for higher quality and high R&D (research and development) costs.
Other objectives: Businesses can use pricing as a strategy to achieve specific goals. Prices can be set low to dodge competition when entering a market or matched with rivals to stabilize the market. They might also be pegged to maintain loyalty and support dealers, or to sidestep government intervention. Prices could be temporarily slashed to spark interest in a product or to draw more customers into retail stores. Some products may be priced to boost the sales of other items in the business. Thus, pricing can play a pivotal role in helping to fulfill objectives at various levels.

3. Pricing Strategies

In marketing principles, when setting prices, a business considers one or more of the following factors: product cost, competitors' prices, and consumer perception. Each factor corresponds to a different pricing approach.

- **Price Based on Consumer Perception**

Since the mid-1970s, a consumer perception-based pricing model has been developed. Businesses using this method need to pinpoint the value that buyers have in their minds at different competitive levels. If the selling price exceeds the perceived value to the buyer, the company's revenue will suffer. In examining the application of pricing strategies, Hinterhuber (2008) highlighted the importance of a product's value from the consumer's perspective: "If a company does not know the value its product provides to customers, how can it set prices based on this value?" A demand curve (analyzing customer needs with estimates of how many units of a product will sell at various prices) is essential for this pricing approach. Demand curves become the foundation for determining the level of production and sales that will yield the highest profit for a business. Prices are set to match the highest profit margin or one of the business's desired goals. Various methods for determining demand have been proposed in research (both in marketing and economics). Specific conditions in a particular case require using different techniques. Each method has its strengths and weaknesses. Methods for determining customer demand include expert estimates, analysis of historical data, buyer surveys, and price experiments.
According to the author, there are numerous ways a business can estimate customer demand for its products. Most of the challenges surrounding demand forecasting are quite apparent, and this poses a significant limitation to the application of economic theory.

- **Competition-Based Pricing**

Pricing trends for a product are closely tied to the competition's pricing. This could be the actual or anticipated price, or even the price a business hopes its competitors will set. Initially, companies identify who their current competitors are. From this analysis, they can adjust their own product's price higher or lower than the market rate, taking into account their unique brand attributes, strengths and weaknesses in their competitive position, and crucially, how competitors might react to their price changes. The most common competitive strategies include price leadership and matching prices.

Nagle, T. (1987) [7], posits that a cost leadership strategy is often employed by businesses with the highest market share. This price-leading approach is utilized in markets where competitors' changes are easily detected and most rivals are operating at or near full capacity.

According to Greer (1984), businesses following a price parity strategy will usually have a smaller market share than those following a price leadership strategy. When the price leader attempts to change prices, most competitors will follow suit and match the price change. If there is no price leader, when market prices exist, peer firms will set prices consistent with market prices. Some businesses may charge more or less, but they keep the price difference very small. In cases where demand elasticity is difficult to assess, businesses believe that keeping prices low will avoid harmful price wars.

According to the author, competition-based pricing is determined by anticipated competitor prices or observed prices from competitors. It's also one of the most widely adopted methods.

- **Cost-Based Pricing**

In marketing, pricing based on competition and demand focuses on external data, while cost-based pricing uses a company's internal data. Competitive and demand-based pricing are starting points in the calculation process. This price level is suitable for the competitive market context; however, it doesn't relate to costs. Managers use this proposed price if it covers costs and achieves the desired profit. According to Hanna and Dodge (1995), despite significant changes in competitive environments, organizational structures, and market responses affecting pricing decisions, costs remain a major determinant. They state: "When prices don't include costs plus a target profit for the business, management must decide to either accept losses or reduced profits for a time until the product is strong enough to be profitable or adjust choices in materials, equipment, and labor to produce at a lower cost for profit; or, as a last resort, cease production entirely." Marketing emphasizes the difference between cost-based pricing and other pricing strategies. Cost-based pricing is supply-oriented and focuses on internal data. Other strategies are demand-oriented. Monroe (1990) points out that cost-based pricing ignores demand factors and fails to consider the price-output-cost relationship.

According to the author, using cost as a basis for pricing is a quick, simple, and necessary method. Cost represents the starting point of price, and it's the lowest level that prices can't drop below in the long run. However, when setting prices based on costs, it's important to consider external business environment factors like competitors and customers.

4. New Product Strategy

The new product strategy is one we embrace during the initial phase of a product's life cycle. For many products, this stage is when they stand out the most, offering unique features not yet seen in other products. If these features bring significant utility to users, they tend to be less price-sensitive compared to other scenarios. The new product strategy includes: (1) skimming pricing; (2) penetration pricing.

- **Skimming Pricing**

Skimming pricing means setting a higher price point when a product or service is first introduced. Essentially, businesses are skimming the cream off the market. It's most effectively used when a new product is highly valued by a niche group of consumers and businesses benefit from a monopoly advantage. Companies opting for skimming pricing hope to recoup research and development costs through the initial high price. It's important to consider that economies of scale and learning don't kick in during the early stages of production, impacting costs.

- **Penetration Pricing**

Penetration pricing is the strategy of setting a low initial price for a new product, sometimes even below cost, to quickly build market share. It's particularly useful when products or services are new and customers have significant uncertainty about their value. We must differentiate penetration pricing from predatory pricing. The key difference lies in the intent. Penetration pricing isn't meant to eliminate competitors. Accountants, lawyers, etc. often employ penetration pricing to establish a customer base. It's typically associated with ramping up factory capacity to produce large volumes, so there might be a financial loss in the first few years, but it pays off after securing a dominant position and reducing unit costs.

For any organization, pricing decisions directly impact the revenue that can be generated. Price and quantity are two components of the revenue equation, and focusing on one will directly influence the other. While the price of a product is a crucial part of the marketing mix, it's not the only one. If prices are set too high, customers might walk away, but a higher price can also align with their desires and needs (Skinner, 1970). If a business can nail the right price for their product, they'll maximize their revenue. Economic theory suggests that effective pricing is based on market forces like demand, competition, and costs. However, putting this theory into practice hasn't been all that successful. Instead of making it complicated and costly, businesses often just base their pricing decisions on costs.

5. Conclusion

The product's price point is super crucial because it's a big deal for revenue and other business aspects, but setting the right price is also key. So, to nail the pricing, we've got to consider factors that influence our pricing decisions. Our pricing strategy takes into account a bunch of business stuff, like revenue goals, who we're selling to, brand positioning, marketing objectives, and what makes our product special. It's also swayed by outside things like what customers are craving, what our competitors are charging, economic vibes, and the overall market scene.

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