**How Pricing Affects the Marketing Mix**

Pricing plays a key role in the **marketing mix** (product, price, place, and promotion). The elements of the marketing mix are interdependent because a change in one will affect the others. Let’s look at how pricing affects the other “Ps.”

You can learn what the marketing mix is by watching this video “The 4 Ps of the Marketing Mix Simplified” by Paxton/Patterson: <https://www.youtube.com/watch?v=Mco8vBAwOmA>.

**Product**

Product decisions involve determining what goods, services, or ideas to produce or sell that will satisfy customers’ needs and wants. Pricing affects **product decisions** in the following ways:

*Research.* Pricing affects the type of research conducted, the length of the research project, and the amount of money spent on research. Research costs money. If a company wants to introduce a new, low-priced laundry detergent, it cannot afford to spend millions of dollars on research. Instead, the company will probably choose a less expensive method of research and may spend only three to six months conducting it.

*Materials used in production.* Which costs more—a silver ring or a platinum ring? The quality of materials used in production is reflected in the product’s price. Companies, therefore, must decide what materials to use in the production of their products. If they want to charge lower prices, they may not be able to use more expensive materials. Can you think of more examples of similar products with prices that vary due to the materials used?

*Profit decisions.* Just because a good or service looks great on paper, it doesn’t mean that the good or service will ever hit the market. Companies must first determine if there is a market for the product and if there will be sufficient demand for it. Before introducing a new product, a company must first determine if it will be profitable. Companies must ask the following questions:

* Can we make a profit by selling this product?
* Can we achieve the return on investment we want?
* Can we set our prices high enough to answer the first two questions with a YES?

*Customer decisions.* Different companies seek to attract different types of customers. Low prices attract customers who are looking for bargains, while high prices attract customers looking for prestige and high quality. For example, Porsche doesn’t price its cars to appeal to people on a budget—the company wants to attract customers who are seeking luxury. A company’s pricing strategies will determine the type of customers its products attract.

*Company image.* What type of image does a company want to project? Pricing will help determine that image. Stores that have low prices are thought of as **discount stores**. On the other hand, stores with very high prices usually are perceived as having more prestigious name brands and higher quality products. Think of the discount grocery chain Aldi, known for its low prices, versus the higher priced grocery chain Whole Foods Market. How are these companies perceived differently? Can you think of any stores like this in your area?

**Promotion**

Promotion involves the various types of communications that marketers use to inform, persuade, or remind customers of their products. Pricing affects **promotion decisions** in the following ways:

*Choice of medium.* Products with very low **profit margins** are usually promoted in lower priced media. Companies that have low profit margins and/or small promotional budgets often promote themselves largely on social media, which usually costs very little. Products that have high profit margins are usually promoted in a combination of media, including radio, television, newspapers, and magazines. Also, the bigger the advertisement, the higher its cost. A one-page ad in your local newspaper will cost more than a two-column or a ¼-page ad. A 10-second television commercial costs less than a 30- or 60-second commercial.

*The amount of money spent.* Most companies have **promotional budgets**. The amount of money spent on an advertising campaign is built into the cost of the product. The higher the promotional budget for a good or service, the higher the price of the good or service for customers.

*Time allocated to the promotion.* Since the cost of promotion is built into the cost of the product, goods and services tend to cost more when they are promoted over a long period of time. Products that are promoted through displays, television, and radio over a six-month period will probably be priced higher than products that are promoted for only one month.

**Place**

Place involves shipping, handling, and storing products and determining when and where they will be available. Pricing affects **place** decisions in the following ways:

*Choice of transportation channels.* There are a variety of ways that companies can ship their products to their final destinations. Trucks, planes, trains, and ships are all used to transport products across town, across the country, and across the globe. The cost of each type of transportation varies. Companies will choose the method that fits within their budget. Again, remember that the cost of the transportation will be built into the price of the product. For example, trucking is less expensive than flying, so an item transported by truck may be less expensive than one transported by plane (think about the cost of goods in remote areas such as Hawaii). Marketers must also consider time when it comes to distribution channels—one channel may be cheaper but might take longer for products to get to their destinations. This factor will have an impact on pricing decisions.

*Where the product is offered.* A product’s price affects where it is sold. Goods and services with high prices will be carried by stores that sell higher priced items. If a product is priced inexpensively, it will sell at a different type of store. Take haircuts for example. A $100 haircut is a service you will most likely find at a fine salon or day spa. A $10 haircut is a service you will most likely find at a discount salon.

**Pricing objectives**

Each company wants or needs something unique from its pricing strategies. These **pricing
objectives** or goals are the guiding influences in how marketers go about making pricing decisions. There are a number of different types of pricing objectives that companies have. They may relate to profitability—making as much profit as possible or simply covering costs. They may relate to sales—selling as many units as possible or gaining a certain **market share**. Objectives may also relate to the **competition**—keeping prices competitive is very important in many industries, such as the airline industry. Lastly, pricing objectives may relate to image or prestige. Companies may set prices that will help them maintain a certain image in customers’ minds—think about luxury cars or jewelry. Companies may use any combination of these pricing objectives when setting prices for goods or services.

For more information about how and why marketers make pricing decisions, read Devra Gartenstein's article "Four Types of Pricing Objectives" at <https://smallbusiness.chron.com/four-types-pricing-objectives-33873.html>.

Pricing is a unique element of the marketing mix because it is the most *adjustable* of the four “Ps.” This means that pricing decisions can be changed much more quickly than decisions about product, place, or promotion.

**Summary**

Pricing plays a key role in the marketing mix (product, price, place, and promotion). The elements of the marketing mix are interdependent because a change in one will affect the others. Pricing affects product decisions in terms of research, materials used in production, profit decisions, customer decisions, and company image. It affects promotion decisions in terms of choice of **medium**, amount of money spent, and time allocated to promotion. It affects place decisions in terms of choice of transportation channels and where products are offered. Companies keep a variety of pricing objectives in mind when making pricing decisions. These goals greatly influence final price decisions.