**Pick a Price, Any Price**

**What is pricing?**

**Pricing** is a marketing function that involves the determination of an exchange price at which the buyer and seller perceive optimum value for a good or service. Effective pricing is important for customer satisfaction and for the continued success of a business. Pricing isn’t as simple as just placing a tag on an item that tells customers how much they owe. Let’s explore the definition a
little further:

*Determining an exchange price.* When a good or service is sold, the buyers and sellers have agreed on a value for the product. That initial value is usually stated as a monetary amount, such as $39.99. At this point, the buyer has decided that s/he is willing and able to pay that amount of money to obtain the product, while the seller has decided that s/he will accept that amount as payment. This amount of money is known as the **exchange price**. Before sellers can set this exchange price, they must consider a number of factors.

*Perceiving optimum value.* Buyers and sellers must feel that they are receiving the most, or optimum, value from the product. When you buy something, you want to make sure that it is the best purchase you can make for your money. After all, when you spend your money on one product, you will no longer have it available to buy something else. Likewise, sellers want to feel that they are selling their products at the best price—the highest price that will still attract the most buyers. The price that the seller sets will affect the number of sales and the amount of income that the company will make.

Think about that for a minute. Pricing is really like a tug-of-war between the buyers and the sellers. Both are trying to get the most value from the good or service. Naturally, buyers want low prices, while sellers want high prices. The trick to pricing comes in balancing and satisfying both groups. Both buyers and sellers need to perceive that they are getting the best possible value they can. If this doesn’t happen, several things might occur:

Prices must also be flexible when it comes to discounts, sales, markdowns, etc. Nearly all businesses lower prices from time to time in an attempt to sell more products and attract more customers. Marketers must stay on their toes to keep prices in line with current promotions and sales.

* Customers will spend their money elsewhere,
either on a similar product (if one is available)
or on an entirely different product.
* A business’s sales will decline. The business will
be forced to discontinue offering the product
or to change its prices.

Effective pricing, therefore, is important for both customer satisfaction and the continued success of the business. Keep in mind that price is not the same as cost. To learn more about the difference between these terms, read Rosemary Peavler's article "What Is Pricing and What Are Some Common Pricing Strategies?" at <https://www.thebalancesmb.com/what-is-pricing-393477>.

**Characteristics of effective pricing**

No single factor makes an effective price. Marketers must keep a number of characteristics in mind when setting effective prices. These include being realistic, flexible, and competitive.

*Realistic prices.* Believe it or not, prices can be set too low! Many businesses have found that if their prices are not what customers expect to pay, even if that price is lower than expected, customers will not buy. When these businesses increased their prices, their sales actually increased as well. Why would this happen? Customers associate price with quality—if the price is high, the quality is high; if the price is low, the quality is low. Wouldn’t you be skeptical if you found a brand new laptop that only cost $15? So, businesses must set prices that are realistic to customers—neither too high nor too low.

*Flexible prices.* Marketers must understand that the prices they set are written on paper—not in stone. Because pricing is a tug-of-war and a constant quest for balance, businesses must be willing to adjust their prices as necessary. These adjustments may be increases or decreases, depending on the circumstances the business faces. For example, during bad economic times, customers are quite cautious about how they spend their money. To attract these customers, businesses may need to lower prices. However, when economic conditions are good, businesses might increase prices because customers are less cautious with their spending.

*Competitive prices.* Would you pay $4 for a can of Pepsi? Under normal circumstances, probably not. You would know that you could get the same product for a much lower price at another store. When a similar product is offered by competitors, a business needs to be aware of the prices others are charging. If not, the business will probably lose customers because its prices are not competitive.

**Pricing goods and services**

Quickly, think of five things that have prices attached to them. What did you come up with? Did you name only physical goods, such as cars, houses, or clothes? Actually, prices are attached to anything of value for which we are willing to make a money exchange. They are associated with such things as:

* A loan from a bank (interest)
* The work that you do (wages/salary)
* A lawyer’s services (legal fees)
* Membership in a professional
organization (dues)
* An airline or bus ticket (fare)
* A movie or theater ticket
(admission)
* Service charge for room service
* Tuition
* Rent

All of these are prices. They are just known by different names.

But, what is actually being priced? In the case of a car, it’s not just the car itself. The price includes the car and all of the associated services—transportation and delivery charges, credit, etc. This makes pricing more difficult because marketers must look beyond the cost of the
immediate product to consider its associated services.

Another important part of the pricing process is communicating prices to customers and clients. Not all prices can be conveyed using a tag or a sticker. Prices can also be communicated through catalogs, price sheets, websites, and salespeople.

**Who sets prices?**

Depending on the size of the business, many people may be involved in establishing prices. In a smaller business, the person most often responsible for setting prices is the manager or owner. This person will check competitors’ prices and use the company’s own records to establish prices for the goods and services the business offers.

In larger companies, an entire department (part of **marketing**) is usually responsible for setting prices for the company. The department may use more sophisticated means to determine prices for the company’s products. It may analyze **market research**, conduct customer surveys, study competitors’ prices, and analyze current and past sales records and trends to help with pricing
decisions.

For more information about the relationship between price, research, and the marketplace, read the article “Why Is ‘Price’ Important in the Marketplace?” at <https://informationstation.org/kitchen_table_econ/why-is-price-important-in-the-marketplace/>.

**Factors that affect prices**

When working with prices, you’ll need to know that many factors, both internal and external, affect the final price decision. These include important influences, such as the following:

* Costs
* Supply and demand
* Economic conditions
* Competition
* Government regulations
* Channel members
* Company objectives and strategies

**Summary**

Pricing is a marketing function that involves the determination of an exchange price at which the buyer and seller perceive optimum value for a good or service. Effective pricing is important for customer satisfaction and for the continued success of a business. Pricing is like a tug-of-war between buyers and sellers. Effective prices are realistic, flexible, and competitive. Prices go by many different names, including fees, dues, and admission. Many factors affect the final price decision, such as costs, economic conditions, and company objectives and strategies.