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NEED AND IMPORTANCE OF PRICE POLICY IN MARKETING SYSTEM

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ANNOTATION

One of the most important decisions a company makes when introducing a product is pricing. Companies rely on different pricing policies to meet their business needs and provide good value to consumers. If a business owner is interested in learning how to choose an acceptable but profitable price point for the goods or services produced by his business, he can learn what influences the choice of pricing policy. In this article, we'll look at the types of pricing policies, the considerations and objectives that influence which one a business should use, and the steps a business owner can take to create their own pricing policy.

Key words

price policy, general types, ways of making price policy.

Introduction

We know that pricing policy is a company's approach to determining the price at which a product or service is offered to the market. Pricing policies help companies ensure they remain profitable and give them the flexibility to price individual products differently. Your company may want to have a well-defined pricing policy so that it can change prices quickly and take advantage of product strengths in one or more markets.

Companies often have different priorities in determining how to price their products. Your new company may need to introduce its services while offering good value to consumers, or it may be a well-established and highly profitable company that sells to a market willing to pay high prices. The most important considerations for pricing policy are[1]:

- Competition: Your business understands who its competitors are and what they charge consumers. Price policy seriously considers competition with other firms in the market;

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- Profit targets: You can choose a pricing policy to achieve a specific profit target for your company;
- Total sales: Pricing policy directly affects how many people buy your company's products and how much they buy;
- Firm health: Your company's financial condition may allow it to prioritize market strategy over immediate profits, or it may need to generate revenue as quickly as possible to stay in business;
- Flexibility: Companies often respond to market changes by changing prices. Your company can consider whether your starting price will allow you to respond to the market without losing profitability;
- Government regulation: To protect consumers, the government regulates the price of certain goods and services. Depending on your industry, this may be a minor issue or a major pricing issue;
- How to adjust prices: Companies that sell large quantities of goods can increasingly automate their prices using special software. A pricing policy takes into account how your company intends to change prices;
- Place of sale: If your company sells the same product at wholesale, retail or other places, the pricing policy may be different for each.

However, when it comes to pricing goals, like most businesses, you may have goals other than making money in the short term. Your pricing policy is a key tool for achieving various business goals, such as[2]:

- ❖ Profit: The ultimate business objective of profit is still important. For some businesses, maximizing profits in the near term may be critical;
- ❖ Firm survival: Sometimes a single pricing policy allows your company to survive;
- ❖ Limiting Competition: Your business may have a structural advantage that allows you to produce a product at a price that no competitor can match. Businesses typically weigh the competitive implications of any price point against the profit potential;
- ❖ Market share acquisition: Your pricing policy may be aimed at maximizing market share. Gaining a large share of the market provides both strategic and financial advantages;
- ❖ Availability: If your company wants to offer its product to as many people as possible, your pricing policy can be adjusted;
- ❖ Consumer satisfaction: Consumer expectations vary based on the price they pay for something. Your business can consider what needs to be met and price accordingly.

In addition, there are common types of pricing policies that companies use, which are:

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Cost-based pricing policy

Cost-based pricing calculates the average cost of production for a product or service and then takes into account your company's desired profit margin. This policy is a traditional approach to doing business because it addresses the costs of doing business in a straightforward and manageable way. If the material required for production becomes more expensive, you simply increase the price of the product proportionally. One downside to this policy is that it can be difficult to know what you have to pay up front or if your production volume has changed[3].

Example: An artist wants to sell paintings for twice the cost of making them. Each painting costs an average of $20 in paint, $10 in canvas, and a day's labor, which the artist estimates at $150. Since the total cost of production is $180, the artist doubles the selling price of $360.

Value-based pricing policy

Some companies have to respond to what consumers are willing to pay for a product. To determine what that price should be, your company will conduct market research on market expectations, consumer preferences, and competitor offerings. Value-based pricing attempts to understand selected factors that differentiate your specific product. It achieves this by:

Focus on specific market segments: A value-based pricing policy tries to target the relevant market segment as much as possible. For example, if your company sells computers, you would not research all computers, but computers with the same size, functional purpose, and typical customer.

Competitive Analysis: Value-based pricing is successful when a company can make meaningful and direct comparisons with other products on the market, just like a real customer would. Your competitors largely define consumers' perceptions of value.

Pricing for added value: Because your company is pricing from value, it will define exactly what differentiates your product from its closest competitor and examine the dollar value of that difference. This dollar amount is what you add to your competitor's price.

Example: A computer manufacturer wants to use value-based pricing for a new gaming PC with an innovative display and wireless charging capabilities. The manufacturer does research and found that most video game players would pay $100 for better graphics and $150 for wireless charging. The manufacturer's closest competitor costs $1,100, so it offers a new computer at a price of $1,350.

Demand-based pricing policy

Consumer demand has different characteristics depending on the product. Demand-driven pricing maximizes profits by responding to the various consumer

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behaviors that exist in markets. Common factors related to demand that can determine prices are[4]:

Inelastic Demand: Demand is elastic if consumers demand the same quantity of a product regardless of price. Governments often regulate markets with elastic demand because people often need products for survival, such as utilities or medicine.

Automated pricing

Companies can use automated or continuous pricing to respond immediately to changes in demand. This allows them to take advantage of high demand or get rid of excess items quickly.

Lack of competition: Innovative or unique products can enter the market at the highest price a consumer is willing to pay because demand is often high and there are no alternatives. This strategy, known as undercutting, maximizes initial profits before competitors offer a similar product. Example: A family is planning a vacation in a certain country, and each ticket costs 1,800,000 soums for the weekend they want to travel. Before you can buy, organizers of a music festival scheduled for that weekend will cancel the event. Out-of-state ticket holders cancel their flights, opening up thousands of seats on flights. When the family returned that day to buy the tickets, each ticket cost only 1,000,000 soums, as airlines responded to low demand and high supply by lowering prices due to fixed prices.

Competitive pricing policy

Your business can use competitive pricing to match what competitors charge for similar products. Competitive pricing takes into account the market segment your company is trying to attract and the competitors who are trying to gain market share.

Competitive pricing can be useful because it's a simple way to determine price. It can be both accurate and low-risk because you understand what your customers will already pay for what you're offering. However, sometimes this approach can cause your company to overlook the strengths of your product, which may have a higher price tag. Because many companies use competitive pricing policies, even a single firm's mispricing can lead to widespread pricing errors[5].

Example: A furniture company produces a new kitchen table with a unique design. He researches what competitors charge for tables of similar size and materials and concludes that the competitive price is 4,000,000 soums. Consumers say the desk design is unique and even better than luxury brand offerings costing twice as much. A furniture company makes a profit by selling hundreds of tables, but could have made more money with a different approach.

Also, now you may have a question about how to create a pricing policy?

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To create a pricing policy that suits your company, follow these steps:

1. Assess business needs

The first step to creating the right pricing policy for your business is to recognize your company's needs. Consider what you want to achieve with your product and your company's finances. Your company's needs may be affected by:

- company size;
- usefulness;
- the number of offered products;
- competition;
- economic conditions;
- market supply and demand.

2. Rate the product

Determine if your product is compatible with a type of pricing policy. Unique products, for example, have a much different revenue potential than duplicate products from different brands. Product highlights include:

Manufacturing costs: If your product is expensive to manufacture, you may need to emphasize cost recovery. Otherwise, you can set a more strategic price.

Market demand: If you use high demand or choose a pricing policy to overcome low demand, your company may prefer a demand-based pricing policy.

Market segment: Price can be a way to signal a company's desired audience. When choosing your pricing policy, consider who you want and expect to buy your product.

Newness: assess how new your product is in the market and try to understand how long your company can maintain a competitive advantage.

3. Research selection

Regardless of which pricing strategy you choose, competitive research is an important business practice that helps you understand your product's potential, market trends, and your competitors' pricing approaches. You can also learn information to guide your product development and business strategy. For example, you can learn about consumer dissatisfaction with competitors' products and translate that knowledge into new goods or services that you evaluate with a value-based policy.

4. Set the price

Once you've determined what pricing policy will help your business generate the revenue it needs, gain market share, and develop a strategy for long-term success, determine the price your policy will dictate. Your business can use its research, sales results, and forecasts to better understand whether your pricing is appropriate or achieving your intended results.

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Based on the above information, we can conclude that one of the most important decisions a company makes when introducing a product is its pricing. Any enterprise that implements the price policy correctly can operate in a competitive environment and achieve success.

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