

# Factors that should influence a firm's pricing strategy

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Pricing of a firm's product is a very important decision as it is the most essential factor that influences the demand of the products produced by the firm, thus impacting significantly on the profitability of the firm. When setting prices for the different products produced by a firm, it is very vital to set them at levels that are capable of recovering all the production costs incurred during their production. For a firm to continue operating, it must sell its products at prices higher than the production costs otherwise it will make substantial losses.

Depending on the level of competition in the industry in which the firm is operating, a firm should set up a profit margin based on its cost of production. This will enable it to recover its costs of production as well as make some profit. Before a firm sets up its prices it should consider the prices being charged by other firms for similar products. If a firm is selling its product at very high prices compared to its competitors the consumers might opt to go for the lower complementary goods or services (Ta'eed, n. d).

The firm should consider the demand elasticity of its products. If the elasticity of its products is high, it means that any slight change in price will result in a big change in demand of the products thus making the consumers to look for alternative products. On the other hand if the demand elasticity is very low or inelastic the firm can increase prices without affecting the demand of its products greatly (Ta'eed, n. d). Pricing should not be based on research and development costs, these costs are not of revenue in nature and should thus be capitalized.

The firm should come up with a policy of writing off such costs within a certain specified period say five years. Pricing is very important for any particular firm thus it should be discussed in the strategic plan before the product project is approved. This will enable the management of a firm to be able to gauge the profitability of the various products it wishes to introduce to the market (Ta'eed, n. d).

Reference: Ta'eed, C. (n. d): Nine Factors to Consider When Determining Your Price. Retrieved on 13th June 2009 from, [http://www. freelanceswitch. com/money/nine-factors-to-consider-when-determining-your-price/](http://www.freelanceswitch.com/money/nine-factors-to-consider-when-determining-your-price/).