Why prices should cover our costs and enable us to earn a fair share of return

Business

Price refers to the costs incurred in order to get the benefits from an item as compared to its ownership. Prices set should be capable of covering costs in order to help the sellers, manufacturers and marketers to earn their fair share of return without necessarily affecting the prices.

This is because price is not only a vital and key feature for products alone, but also for consumers as well. In contrast to this, prices should not cover the costs since a change in prices of products is bound to have an immediate effect through which competitors can quickly utilize as it is an easy tool for the competition. Various psychological factors have also been associated to price. For instance, in the marketing mix, price has been known as the major element which has a direct effect on revenues. Prices should, therefore, be able to cover the costs of the sellers, marketers and manufacturers since it is a direct expression of value to the client. This is also coupled with the fact that prices are known to reflect the disadvantages and advantages of not only the products, but their scarcity as well.

Any product which does not cover the consumers’ costs denies them an opportunity to earn their own fair of return and as a result, they are forced to carry the burden of overpricing through affecting their sales. When making decisions regarding marketing, then only avoidable and incremental costs should be considered. Apart from that, pricing decisions can never be grounded on fixed costs which include both long-run and short term ones. Prices should cover costs because of simplicity which is realized in environs where the setting of prices is done repeatedly like, for instance, in a supermarket. The prices should be able to cover costs and enable people to earn their fair share of profits or returns without necessarily affecting the sales.

Failure to achieve this will result in brand switching, whereby the clients will prefer to go for a cheaper product that serves the same purpose rather than buy an expensive product. According to an article by Osteryoung Jerry of FloridaStateUniversity (2011), pricing should cover one's costs and convey value. This is attributed to the fact that price is what one pays and the value that one gets. With inflation that is so common spread today, costs are increasing rapidly and thus it is important for marketers, manufacturers and sellers to evaluate their pricing. Prices should only be raised with an intention of balancing the expenses that are added in order to make some profits.

From the perspective of a client, pricing plays a crucial role through sending a message that indicates that indeed, it is the value indicator in any form of business scenario. Low priced products will, therefore, be perceived by clients as being not very valuable while highly priced products will also be viewed by clients as having a higher value (Osteryoung 2011). In conclusion, prices should be inclusive of costs in order for the manufacturers, sellers and marketers to get value for their money. Lowly priced and highly priced products will have negative effects on the clients and thus it is vital that business people thread carefully in matters regarding price. Since pricing has a great effect on the nature of clients that the business attracts, it is imperative for the prices to be set imperatively.