Pricing goals, demand elasticity

A good knowledge of the customer group and its elasticity of demand for a product are vital factors for firms that need to operate successfully. Another factor that a firm needs to identify is its own pricing strategy. The pricing strategy must balance the firm's need for sales growth against the anticipated profits. The pricinggoalsmay be recognized as Profit Maximization, Revenue & market share Maximization and Qualityleadership. Apart from the firm's independent choice, the pricing goals depend largely on the target customer group.

A close research of the customer groups helps in understanding the distinct behavioral patterns associated with the pricing policies. For a soap manufacturing company, it is vital to understand the potential customers and how they are impacted by any changes in price of soap. The first group of customers is identified as the rich and brand conscious users, who are willing to pay a higher price to get a soap bar that promotes fairer, smoother skin. The firm understands that the price elasticity of demand for this group is inelastic and the sales volume will not be affected by any change in prices.

The firm can employ the quality leadership strategy to earn supernormal profits which are much higher than the high cost incurred on serving the group. The price is used as an indicator to support the image of the firm as a quality leader. The second group of customers may be categorized as the ones with rather elastic demand. In order to cater to this group, the firm needs to balance the price with the product features. The firm must be aware of the costs and the set the prices for profit maximization depending on the market structure in which it operates.

The perfect competition market structure controls the pricing for such an elastic group of customers. The third group of customers is defined by the users who buy the soap only if it is absolutely cheap. The demand elasticity is perfectly elastic and so the best pricing strategy of the firm for such a customer band is revenue maximization. The price of the soap can be set below normal to boost sales and revenue while temporarily ignoring profits. The firm must evaluate the impact and the duration of operating at such minimal profits.

The appropriate prices set for the different customer segments are greatly influenced by the varying cost of serving each segment (Peterson & Lewis, 1999). However, even if the cost does not vary, the firm may employ concepts such as pricediscriminationand peak bundling to achieve the pricing goals (Economic Expert. com). A thorough analysis of the customer segments along with their respective demand elasticity must be carried out and evaluated in the light of the firm's own pricing goals in order to implement effective pricing decisions.

Rigby suggests that using customer segmentation as the basis for pricing strategy not only ensures overall satisfaction for the customers but also ensures sustained profits for the firm. References Peterson, H. C. , & Lewis, W. C. 1999. Managerial Economics (3rd ed.). Prentice Hall of India. New Delhi. Rigby, D. , Customer Segmentation, Management Tools. Retreived on April 16, 2009 from http://www. bain. com/management_tools/tools_customer_segmentation. asp? groupCode= 2 Price Discrimination, Economic Expert. com Retreived on April 16, 2009 from http://www. economicexpert. com/a/Price: discrimination. htm