MARKETING

Setting a price

Price is one of the most important elements to consider in marketing since from all the elements of the marketing mix it is the only that generates income. When we think of price we tend to think of physical goods but services of course also have a price. It is just called something else. In fact it comes under various names: interest, fees, rent, fares and so on, writes ***Albert Caruana.***

Surveys in many countries show that firms fix prices arbitrarily often based on some formula or rule of thumb. In many firms the final price is arrived at by using a "cost plus" approach. Indeed many see this as a 'fair' method of pricing. Price control is based on this system. However, cost plus represents an example of circular reasoning. Here, unit prices are set according to an assumed target sales, according to which the firm will manufacture. Yet it is the price itself that determines the quantities sold. 'Cost plus' highlights a focus on internal considerations. Marketing focuses externally to the organisation on the customer and the market. How do we go about setting prices in marketing? What are some of the considerations we have to consider?

Clear objectives

The first consideration focuses on the marketing objectives of our organisation as these will suggest what pricing strategy we should formulate. Do we have a sales growth objective? Is this more important than profitability at least in the short run? This may be so if we are trying to capture market share with the hope of dominating a market in the long run. It may also be the case if we wish to implement low fares to fill buses in order to achieve environmental or social goals.

Perhaps many managers would echo the economist's view and subscribe to the profit maximisation model. In reality many managers seek a satisfactory return often linked to some target return on sales and capital. What is satisfactory is of course rather subjective.

There is no doubt that these objectives do play an important part in what pricing policy you adopt.

Positioning

While an understanding of the implications of our firm's objective on our pricing strategy is important, there are other aspects to consider. A first consideration is where do you want to position your product? Positioning refers to the place the product must occupy in the perception of the customer. Price reinforces a positioning. If you want your customers to believe that your product compares to the imported version than you must, among other things, price your product close to this. In this regard price on its own is not sufficient. The other elements in the marketing mix must contribute to further strengthen a desired positioning. This has implications on how to control prices. It indicates that it may be sufficient to control the prices of the main brands in a product category as all the other brands in the category must necessarily use these as reference points.

Other considerations

The second consideration concerns the stage the product is in its life history The stage the product is in helps determine the type of situation the product faces and what policy is likely to be most suitable. A further aspect to consider requires asking: What are our competitor prices? Are we price makers or price takers? Much depends on the market structure of the industry you are in and the strength of your brand. In an oligopolistic situation most of the competition is on non-price variables. While if your brand is the strongest brand in the particular product category, than you are the price maker. The competitors are essentially price takers and must adjust their prices accordingly. Finally, though I have mentioned some of the problems of the 'cost plus' approach, it does not mean that cost is not a consideration. Clearly any price set must be such as to cover costs as otherwise the firm would not survive for long. The point here is that cost is not the only consideration. Cost is a matter of fact. Price is a question of policy.

Legal influences

In any economy there is an important player that is also concerned with price. Government's interest in prices are essentially for two main reasons namely: inflation and the general social welfare of the population. The legal control over prices in Malta has a long and interesting history. In the eighteenth century the Code Manoel contained a list of maximum prices that could be charged for a list of essential commodities. More recently, it was Section 3 of the Supplies and Services Act of 1947 which, among other things, empowered the Minister responsible for trade to control prices. The main objective of this act was to control the black market that existed after the war. The first strict enforcement of price control took place at the time of the Arab-Israeli conflict of 1967 when the full force of the regulations issued in 1952 under the act were used. Following the devaluation of sterling in November of 1967, Legal Notice 79, of 1967 imposed a price freeze and no prices could be raised without the consent of the Department of Trade.

The cost of living was an electoral issue in 1971 and following that election the Labour government set up a commission on pricing under which new regulations were issued in 1972. These were modeled on UK war regulations war regulations and their publication was followed by the introduction of a price freeze. The regulations empowered the Director of Trade to fix prices by the issue of price orders using one of three methods: fixing maximum prices; fixing maximum margins of profit, and, fixing maximum percentage of profit. This was essentially a 'cost plus' approach. 1982 saw the imposition of another price freeze and the extension of the meaning of 'commodity' to include also services. Scattered here and there are other pieces of legislation that seek to control prices in other sectors such as hotel and catering establishments, boat trips, doctors' fees and lawyers' tariffs. Furthermore, the code of Police Laws contains various provision regulating such things as the hiring of *Karozzini*, funeral hearses, as well as entrance fees to cinemas and theatres, among others. Price orders are still being issued as a perusal of recent issues of the Government Gazette will confirm.

Spirit of competition

Price control is not in keeping with the spirit of competition that the Treaty of Rome seeks to promote were prices are expected to rely on market conditions to find their levels. The latest twist appears to be clause 11 of the new Competition Bill. This clause can be seen to be somewhat of an incongruity in a bill meant to promote deregulation and the free play of market forces. Is this a transitory measure to smooth the introduction of VAT? In any case it appears that the Director of Competition (responsible for price control!) is being given too much discretionary authority. As it is subsection seven allows the term 'essential' to include any product or service. Perhaps a clearer identification of what are the 'essential goods and services' would go a long way in enhancing confidence. Where prices are concerned temporary measures have a nasty habit of becoming permanent features.

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