Pricing strategy is the policy a firm adopts to determine what it will charge for its products and services. Strategic approaches fall broadly into the three categories of cost-based pricing, competition-based pricing and value-based pricing. Pricing strategy is a key variable in financial modeling, which determines the revenues achieved, the profits earned, and the amounts reinvested in the firm’s growth for its long-term survival. A number of pricing strategy options are available, including: mark-up pricing, target return on investment pricing, perceived value pricing, competition based pricing, penetration pricing, and skimming pricing. The choice of pricing strategy adopted by the firm will depend on the overall corporate strategy, buyer expectations and behavior, competitor strategies, industry changes and regulatory boundaries. Other factors affecting the nature of pricing strategies are corporate image, geography, price discrimination and price sensitivity. Future trends in pricing policies are likely to focus on information-based optimization through cost reduction of inefficiencies in the supply chain, the reduction of trade allowances, an increase in responsiveness to changes in market conditions, greater pricing flexibility and a reduction of pricing disparity across different channels.

Keywords
Pricing strategy, pricing policy, price elasticity, price optimization

Reference this article