BALTIC JOURNAL OF LAW & POLITICS
A Journal of Vytautas Magnus University
VOLUME 15, NUMBER 3 (2022)
ISSN 2029-0454

Cite: *Baltic Journal of Law & Politics* 15:3 (2022): 2198-2217
DOI: 10.2478/bjlp-2022-002150

Pricing: Strategies that Every Venture Should Take into Account

Beatriz Elena Herrera Velásquez

Bachelor's degree in Financial Management Fundación Universitaria CEIPA graduate/ Orygen research group /Business School, Sabaneta, Colombia

Daniela Zapata Gallego

Bachelor's degree in Financial Management Fundación Universitaria CEIPA graduate/ Orygen research group /Business School, Sabaneta, Colombia

Fausto Vahos

Full time professor, Fundación Universitaria CEIPA, Professor/ Orygen research group / Business School, Sabaneta, Colombia

Antonio Boada

Full time professor, Fundación Universitaria CEIPA, Professor/Grupo Orygen/ Business School, Sabaneta, Colombia

Received: August 29, 2022; reviews: 2; accepted: November 04, 2022

Abstract

Pricing in a business venture must be an analytical decision based on study and knowledge of the various factors that influence or affect the price. This article establishes a state-of-the-art methodology that aims to compile, analyze, interpret and systematize the different theories and research on the subject, focusing on each of the elements proposed to define a pricing policy. Six factors that influence pricing and account for various strategies that can be used by businesses to achieve and fulfill their goals and market demands are proposed from the analysis of the literature. It is concluded that there is no way to determine whether one strategy is more important than another. Although some authors place more emphasis on elements such as the marketing mix and cost-based pricing, all of them agree on the importance of studying several factors to set the selling price of a product or service. From the findings, several guiding elements are established, which are flexible with respect to various business models and are relevant in terms of applicability for ventures to remain in the market in the long term.

Keywords

Pricing; Costs; Competitiveness; Contribution Margin; Consumer

JEL Classifications: J11, F43

1. Introduction

Pricing a product is one of the most important decisions that a venture or producer must make, and it requires knowledge of aspects related to product identification, cost structure, making prices competitive, increasing contribution margins within the market, studying consumer needs and expectations, and identifying and measuring macro-environmental variables that directly or indirectly impact the company.

The relevance of price resides in its communicative power, not only to the consumer but also to the market in general, as it conveys a great deal of information to the consumer about the venture. According to Vale and Valesca (2007), communication is an important part of the marketing mix because companies identify market trends and change processes at all market levels, which have a significant impact on how they communicate with the various stakeholders and sectors of interest with whom they maintain relationships; consumers among them, with whom the price is intended to be perceived as a communicator of value attributes of the product or service, in order to meet the organization's economic and social objectives and goals. As a result, deciding on a product's or service's selling price is a key aspect in determining essential success factors including profitability, income, sales volume, and the analysis of costs and expenses incurred during the sales or manufacturing process.

Because of their ease of application, cost-based pricing methods are the most often utilized today (Calderón, 2015); however, market-based pricing methods should be used as they are the ones that genuinely indicate the value perceived by the customer. Therefore, pricing a product is a process that must take into account not only the total production costs and desired profitability but also the market components and the value that the consumer judges of the product.

Price, according to Pérez and Pérez (2006), is the only element that objectively provides income to the company; yet, price alone does not sell the product; it requires other elements to make it the most appealing, desired and, ultimately, the most purchased product in the market. In other words, the price has a clear financial component, but it also has psychological, commercial, and positioning components, among other aspects; and all these price considerations must be taken into account when determining the product's final price.

Given the importance of pricing in the market domain, this article conducts a documentary review in the form of a state of the art, a technique that allows recovering, analyzing, and reflectively projecting the knowledge found from the various research results, theories and authors consulted. According to Guevara-Patiño (2016), the state of the art enables the development of research skills and abilities such as the selection and delimitation of the problem and the object of study, as well as the search and review of different databases and the appropriate use of computer resources.

This review aims to determine, based on the findings, the most commonly used pricing techniques and strategies and how these are applied based on the features of each product, without neglecting the importance of the consumer's role. The fundamentals of the market will be defined, based on the degree of liking and impact that it generates in the consumer's decisions because, as explained by Gonzaga, Alaña and Yánez (2018), pricing is governed not only by theoretical considerations but also by a psychosocial analysis as a product's impact on the consumer's mind may influence their purchase decision. According to Guerrero, Hernández and Díaz (2013) psychologically-based pricing is one of the most widely used technique in the market because it is based on considering psychological features that influence consumers' willingness to buy, such as "product quality associated with its price, promotional prices, and product lines with specific price levels" (Guerrero, Hernández and Díaz, 2013, p.).

Therefore, based on the identification of the various challenges raised by pricing, we propose the following six pricing determinants: competition, consumer, life cycle, costs, product quality, and contribution. It is proposed as a strategy to transform these into techniques or methods to study each of the elements to be considered by any venture when adopting a pricing model that can respond positively to market demands, its approaches, its effects on the company, customers, sales and competition.

2. Materials and Method

Pricing decisions in today's world should be made strategically. According to Restrepo-Abad (2007), most companies use price as a tactical decision, whether when launching a new product or seeking to improve the performance of an existing one. This leads us to believe that the cost of the product should not be determined hurriedly or intuitively; on the contrary, as stated by the author, firms seek assistance on product pricing.

Therefore, it is vital to define what price means, as there are many alternative conceptions and terms that condition and limit its concept. According to Friedman (1976) definition of economic theory, price is considered "the level at which the monetary value of a product/service is equalized for the buyer and the seller" (p.). In turn, Pérez and Pérez argue that "the price is the value applied to a good or service for the benefit perceived by the user and the monetary effort they must make to acquire it" (2006, p.).

The definitions above go beyond the objective idea of price setting and include a crucial component, namely the viewpoint of the consumer, which entails examining not only the technical aspects of price-setting but also consumers' subjectivity factors. According to Goñi-Ávila (2008), price is not the only element that determines a product's purchase; other factors such as quality, service, and store location are all important. The author explains that there are segments sensitive to price variations, notably in Latin American or developing economies, because consumers buy products that best fit their pockets, without considering

the other aforementioned decision criteria, due to reduced income and high inflation rates.

González-Vega and Córdoba-Zúniga (2016) assert that pricing is the process by which a business determines how much to charge customers for its goods or services or how a business achieves its goals. The authors define price as "the amount of money charged for a product or service [...] it is the sum of the values that consumers give in exchange for the benefits of having or using the product or service" (González-Vega and Córdoba-Zúniga, 2016, p.).

According to Cuevas-Villegas (2002), pricing decisions are strategic, since the value charged for its products or services can affect the company's sales and thus its income. This point is crucial for companies and ventures to achieve competitiveness since the price must be linked to the result between the demand and supply of the product, and it is critical to examine three aspects of this relationship: customers, competition and costs.

From the company's perspective, price has two dimensions; it is a tool for stimulating demand through advertising strategies while also being a determining factor in the company's long-term profitability. As a result, prices must adhere to two types of coherence: internal coherence, which entails setting a product's price while adhering to cost and profit constraints; and external coherence, which is linked to the price level and takes into account the market's purchasing power as well as the price of competing goods.

Pricing is a business competition strategy that should be based on the differentiation of a firm's products from those of other companies in the market. To achieve this, each company should examine multiple internal factors such as talent, market knowledge, innovation capacity, flexibility, and financial capacity; these are variables through which "the various price - benefit - cost strategies will be carried out as a market positioning method" (Córdoba and Moreno, 2017).

It is critical to recognize that a good pricing strategy can attract profitable customers, whereas a bad pricing decision can destroy entire industries. For this reason, "it is necessary to conduct a systematic and integrated collection and analysis of the elements that comprise the pricing environment" (Márquez, 2005, p.).

According to Márquez (2005), there are five elements to consider in the cost environment: 1) knowing the fixed, marketing and distribution costs, as these will be the basis for deciding between strategic alternatives such as discounts and differential pricing; 2) estimating demand so that the company fully understands the factors that affect the sale of its goods and products, i.e., keeping in mind that prices influence buyers' perceptions; 3) knowing the competition and the competitive environment, as it is necessary to understand competitors' reaction patterns to price changes, as well as buyers' value assessment among the available alternatives in the market, since such value assessments are comparative and represent a consumer's judgment on the price and desirability of a product or service in comparison to close substitutes that satisfy the same need; 4) taking

into account organizational considerations, which determine the objectives that guide the pricing policy in order to define corporate and marketing goals, such as profits, sales, or the present market scenario; and 5) considering other elements of the marketing mix, in terms of the harmony among price, place, product and promotion.

It should be highlighted that among the market alternatives available to consumers, some may provide additional features to the product being offered, resulting in added value. If the buyer perceives this differential value, they will readily choose the product above the competitors, regardless of price. All businesses must realize that setting value is more important than setting a price for a product to be competitive in their market segment. According to Mejía (2012), price is not a value in and of itself, but rather in relation to the customer's perception of satisfaction with the aspirations that the product fulfills. Thus, in order to prevent the price from being the sole determinant of the purchase decision, the seller's argument with the customer should not only revolve around the price but also around the value created. "If this is not done, we end up entering the famous 'price wars', where a customer only considers who is offering the lowest price, ignoring the value of the product and its satisfying elements" (Mejía, 2012, p.).

No one of the five aforementioned items should be more significant than the other in the analysis conducted by the small business or venture. Knowing the costs, knowing the competition, and estimating the demand, among other elements, are important when establishing a pricing strategy. All the variables mentioned should be mixed with the single goal of having an impact on the customer, which generates value and competitive advantages to the business. Knowing all the elements can help companies to anticipate price changes caused by the internal and external environment.

Other authors identify the criteria, steps or stages to be followed for price setting. Guerrero, Hernández and Díaz (2013) propose the following seven steps: 1) establishing the price goals, such as achieving a certain amount of return on investment, increasing earnings, or expanding the company's market share; 2) identifying the target market and estimating demand, as well as the company's relevant market and the competition it will face within it; 3) examining the cost structure to identify the lower price limit (which meets the purpose of satisfying demand) and the upper price limit (which is the value that will generate more profit) in order to compare the various price levels and determine the break-even point for the company to meet the product's goals and objectives; 4) analyzing competitors and substitute products, including competitors’ prices, their product attributes, and their distribution and market segment, seeking a favorable positioning in the market; 5) deciding on the pricing policy, principles, rules or action guidelines that the company will follow for price management; 6) selecting a pricing method, such as target performance-based, demand-based or competition-based price setting, to determine which one best fits the outcomes of the earlier steps; and 7) defining the final price after having analyzed the specific

market and product conditions and having selected the pricing method and other aspects that may be affected by the setting and modification of the product's price (Guerrero, Hernández and Díaz (2013).

Pricing strategies are becoming increasingly important in businesses as a result of factors such as technological advancements, economic recessions, and today's globalized society. Devising an adequate pricing strategy will enable a small business to anticipate what the customer wants. When a customer wants to buy a product or use a service, they place a high value on the benefits provided and not only on its price; however, to provide additional value, the company must establish an adequate pricing policy, taking into account aspects such as the pricing goals, product demand and life cycle, the company's cost structure, the competition and its offerings, the price setting method, and the determination of the final price. According to Rodríguez-Brindis (2015), a good pricing policy allows for profit maximization, goal achievement and customer loyalty.

2.1 Strategic Elements for Pricing

The six price determinants (costs, competition, consumer, life cycle, product quality, and contribution) are consolidated as strategies from the review of the proposals of the various authors analyzed in this study, allowing the enterprises to have a basis or structure on which they can develop business policies for their proper implementation. Thus, through the description of the various edges comprising the strategy, it is intended to establish an adaptable and accessible pricing system that responds to the product's characteristics, the market requirements, and the venture’s goals.

In this vein and according to Ruiz-Aguado (2016), the pricing process shows that the selling price is dependent on the company's overall objectives and its marketing strategy. In addition, the selling price decision is not permanent; it must be monitored to meet the established objectives and must be flexible enough to adapt to changes in the circumstances that led to the decision. Because technology and innovation in the market increase competition, Fonseca-Sepúlveda (2012) agrees that pricing is not always stable. As a result, the company must make changes and adjustments to its management and administrative processes as well as its pricing strategy. Pricing is an art, requiring companies to be innovative and creative as well as to understand how costs, price sensitivity, and competition affect pricing (Mohammed, 2006; Nagle and Holden, 1998; Tracy, 2015).

Because of the instability involved in setting a price, the following six key aspects or concepts are suggested to be considered when creating the pricing policy:

3. Competition

When defining a price, competition is a crucial factor. According to Gómez-Borja (2013), competition is defined as any offer of superior value in the

ISSN 2029-0454
2022

satisfaction of a particular need (higher benefits, lower costs). Competitors are those who can provide a substitute value offer, "to the extent that the attributes and benefits offered by the products or services to satisfy the needs provide a similar value, the degree of substitution is greater and, therefore, competition is more intense" (Gómez-Borja, 2013, p.).

The true added value that every business must offer is that, in addition to the product being purchased, the consumer receives a differentiating element. This is achieved by developing innovative products that are market leaders and that have an added value over those provided by the competition. But how do you develop differentiating products? According to Larrea (1991), a differentiating product is one that stands out from the competition for being singular and unique, sufficient but substantial, perceived as different, able to meet needs better than competitors, long-lasting, which remains despite changes in the environment and the competition, and offers reasonable benefits.

Ruiz-Aguado (2016) suggests that the basis for setting the selling price is the product's competitive environment on the market, which is determined by competitors' actions and reactions. Competition-based pricing takes into account the analysis of competitors' prices, on which the decision is based in relation to the company's objectives and the type of market in which it operates. In order to define a price that is related to these competitors' price, the choice will be whether to set a price that is lower, equal to, or higher than that of the competition (Rodríguez, 2015).

Competition-based pricing takes into account cost strategies, pricing, and market offerings. Kotler and Armstrong (2013) posit that when evaluating competitors' pricing strategies, a company should ask itself several questions, such as: how does the company's market offering compare with that of its rivals in terms of customer value. If consumers perceive that the product or service provides greater value, a higher price can be charged, but if they perceive less value, the company should set a lower price or try to change customer perceptions, as can be seen in Figure 1:

Figure 1. Pricing considerations

Companies must continuously review their competitors' prices when setting their own, regardless of whether the price is set high or low, and must provide their customers with added value. It might be believed that lowering prices is the fastest way to increase market share, but businesses must carefully consider their options because reducing prices can give them an advantage over rivals only temporarily as competitors could easily match the price, so a differential in marketing must be provided.

3.1 Consumer

Gómez-García and Sequeira-Narváez (2015) state that a consumer is a person who requires a product or service, either out of a need or a desire, and then discards what they have purchased because their need has already been met or because their tastes or interests have changed.

Raiteri (2016) indicates that the majority of businesses aim to persuade consumers, so it is important to know, analyze and understand their motivations and demands. The author further asserts that a business's primary objective is to fulfill the desires and needs of its target audience, so it must understand what drives individuals to make purchases. In terms of pricing, it is crucial to understand the consumer in aspects related to psychological pricing, how sensitive they are to the price of competing brands, and what price reduction is necessary to increase sales.

Consumer-based pricing places more value on the buyer's satisfaction with the product and its usefulness than it does on the cost of the product's components. Customer perceived value takes into account the acquisition value, the expected benefit from the purchase of the product, and the perception of the offer and quality of the service. Businesses must understand how much consumers are willing to pay for the benefits they receive from the product or service to implement consumer-based pricing strategies effectively. Consumers will always compare the monetary value they pay with the benefits they receive.

Determining perceived value can be approached by either a direct or indirect method. The company can follow the direct method to inquire customers about the value they would place on the product, while the indirect method studies the economic advantages that customers obtain from buying the product. To determine the perceived value, companies must compare the value that consumers place on a product with the selling price, following the model of equation 1:

$$PV_j = \frac{PA_j}{P_j} \text{ for J = 1,..., M.} \quad (1)$$

Ruiz-Conde and Parreño Selva (2013) describe the variables that compose equation 1 as follows:

PV_j= Perceived value for the brand.
PA_j= Price according to perceived value.

P_j = Selling price.

The results obtained are understood as follows:

If PV_j>1, it means that the product is above the quality it should have according to the selling price.

If PV_j=1, it means that the price of the product is equal to the consumer's perception.

If PV_j<1, it means that the product has a high price compared to its quality.

If the price is higher than the customer's perceived value, the company should lower the price and improve the product's quality; if the price is lower than the customer's perceived value, the company should reconsider its pricing strategy because consumers are willing to pay a higher price.

3.2 Product Life Cycle

All products, like living beings, go through a life cycle in which they are born, grow and die. Businesses must be aware of these life cycles to design a pricing strategy that is appropriate for the product's life cycle. Figure 2 depicts the four stages the product goes through: introduction, growth, maturity and decline.

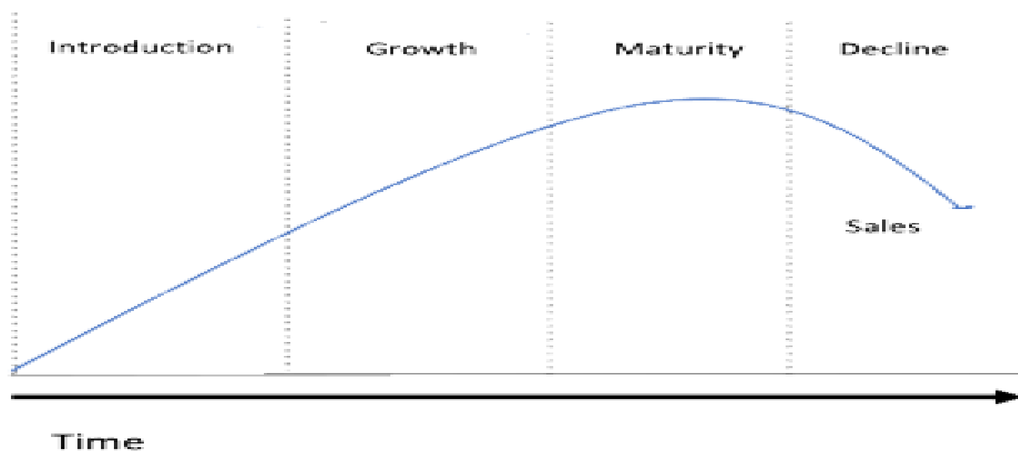


Figure 2. Sales behavior versus profit over the product life cycle

Sánchez-Hernando broadly defines a product's life cycle as "the period during which a product generates sales and profits" (2015, p.). Life cycle is defined as the chronological process that occurs from the time the product enters the market until it is removed from the market (Ruiz-Aguado, 2016). Thus, there are various phases or stages in a product's life cycle: introduction, growth, maturity and decline (Ruiz-Aguado, 2016).

Because businesses must invest heavily in marketing, development and research during the initial stage of introducing the product, earnings are low or negative at this point as the product is being launched and presented to the market. Sales also grow slowly at this phase. It is suggested that businesses implement

clever pricing methods, such as spending on advertising to increase consumer awareness of the product. According to Lamb, Hair Jr. and Mcdaniel "this introductory period ought to be brief to lessen the impact of negative earnings and cash flows. As soon as the product becomes successful, the financial burden should begin to diminish" (2011, p.).

Sales and profits start to rise **during the growth stage** as a result of the market's acceptance of the product at this point. In terms of pricing strategies, the company could improve the product's quality by adding new features and innovations, researching additional market segments, investing in marketing, lowering prices, and attracting more customers. As stated by Mayorga, Contreras and Vargas (2009) this is the stage in which profitability begins to be positive and organizational growth is observed. At this stage, some variables should be controlled such as the product (meeting market needs), price (market competitiveness), distribution channels (the efficiency and effectiveness with which the products reach the consumer), and advertising (whether it is viable to maintain the advertising campaign within the parameters of the introduction stage or to reduce it).

The next stage is that of maturity, during which sales growth slows down or is sometimes maintained, which can result in lower profits. At this stage, many businesses discard products because they consider them outdated and prefer to invest in new ones; and several strategies can be implemented such as market research into other segments, product innovations to incorporate new features, luring customers away from rivals, and attracting new users. Due to the fierce pricing rivalry in the market at this stage, businesses develop new product lines and ranges to reach more new markets and, as a result, product distribution becomes more intense than in the growth stage (Sánchez, Benítez and Arias, 2015).

During the declining stage, demand and sales decrease and many companies discontinue products or cut their prices to encourage promotions in an effort to generate customer recall of the product. Companies might now consider revamping the product line or reducing investment in the product to target more lucrative market segments. Authors such as Stanton, Etzel and Walker (2007) consider that this stage is inevitable as technology enables the development of new, more innovative, less expensive and, perhaps, more affordable products addressing the same need. Mayorga, Contreras and Vargas (2009) argue that the key to managing a product's price effectively is to understand that it will depend on the stage of its life cycle (even before it is introduced to the market). Therefore, at each stage, the needs for marketing, financing, production and infrastructure must be anticipated.

3.3 Costs

Cost is a vital component in the definition of a product's pricing, considering two perspectives, "the economic one, in which cost is based on the notion of

sacrifice or consumption, and the accounting one, in which it is understood as any incorporable cost" (Sánchez, 2012, p.). Cost is the expense or sacrifice incurred in the production of a good or the rendering of a service. Therefore, the total cost of a product can be calculated by adding the monetary values of all the inputs that were used or consumed in its production process (Suárez, 1985).

Businesses must consider how cost fluctuations affect price behavior. For this purpose, the nature of the various cost types should be clearly identified, such as variable costs, which vary with changes in production dynamics, and fixed costs, which are associated with production processes, regardless of production. For Horngren, Datar and Rajan (2007) "costs affect prices because they influence supply. The lower the cost of manufacturing a product, the more of that product the company will be willing to supply" (p.).

The replacement cost, which accounts for three cost elements including total assets, machinery and equipment, and inventory, is another expense that must be considered. Companies that want to ensure their operations are profitable can base their pricing on a margin that is calculated based on replacement costs. For Montoro and Navarro (2010), the replacement cost can be defined as the amount of money required for a company or venture to maintain the same productive capacity at a minimum cost.

The replacement cost, also referred to as replacement price or market price, includes the expenses of restoring inventory to its original state (Cárdenas, 2006; Osorio and Correa, 2004) valuing raw materials at their last purchase price and finished goods at their last production cost. Since more accurate and periodically updated costs are yielded using this technique, it is of the utmost importance in the recording of outputs; however, it has occasionally been distorted, which leads to confusion and detracts its importance. Ventures must use this information when documenting accounting processes that alter the stability of total costs in determining the selling price, and afterward when following up on inventory control in terms of volume and costs.

Understanding cost behavior and running an effective administration are essential and offer added value since they enable businesses to implement actions that will give them a competitive edge. For Hansen and Mowen (2007), "strategic cost management is the use of cost data to develop and identify superior strategies that produce a sustainable competitive advantage" (p.).

Industrial revolution 4.0 has presented challenges and accelerated changes for businesses (Pérez, Solana and Trigueros, 2018; Rojas et al., 2020) even for large companies. This is due to increased global competition and the introduction of new technological products that have encouraged the use of financial information to understand trending consumer needs, and which directly impact the selling price of the product or service.

Kaplan and Cooper (1998) state that the new environment calls for more accurate data on costs as well as how an organization's operations, processes, goods, services, and consumers are handled. Leading businesses, according to the

authors, use costs to design products and services that meet customer expectations while also being produced and delivered at a profit for the company. They also use costs to identify areas that require continuous improvements or reengineering in quality, efficiency or speed in learning activities; to guide investment and product mix decisions; to select from a variety of suppliers; to negotiate with a number of customers regarding price, product features, quality, delivery requirements and the level of service desired; and to structure efficient and effective distribution and service processes for the target market and the different customer segments.

The value for the company is generated from the price and its cost structure, and there is true value innovation when the entire system of profit, price, and cost activities of the venture is properly aligned. This approach makes the creation of a blue ocean strategy -incorporating all the venture's or company's functional and operational activities- sustainable. Thus, an innovation in the production process can reduce its cost structure and strengthen a cost leadership strategy without altering its profit proposition (Kim, 2005).

3.4 Product Quality

Product quality is a crucial component for firms’ permanence since it is viewed as the driving factor behind internal processes, which differentiates the business from its environment, enables it to adapt to the environment, and satisfies customer needs (Sanabria, Romero and Flórez, 2014). When determining a product's price, companies should bear in mind that besides setting a monetary value to a product, there are other aspects to be considered, such as "product quality", which is crucial since consumers often place more value on the added value that a product provides than on its cost. As stated by Ishikawa (1998), quality is the design and production of a service that is useful, reasonably priced and satisfies customer needs.

Since defining quality is a difficult procedure owing to the numerous factors involved, we will only discuss the most important ones in determining the selling price. Talaya et al. (2008) claim that "the quality of a product is related to its compatibility and affinity, as well as the manufacturing consistency with the desired level of quality level" (p.). Quality is viewed from two perspectives: objective quality, which evaluates the total supply, and perceived quality, which evaluates the demand. Objective quality measures the product's objective and verifiable characteristics, while perceived quality refers to the buyers' assessment of the presentation qualities to attract consumers and arouse their liking or sympathy, helping them identify with the product and the brand.

Consumers compare price with quality and tend to believe that higher-priced products have higher quality than lower-priced products. Consumers are always willing to pay a high price, but not higher than what the product offers. Companies must always find a balance between the quality/price ratio; it is preferable if the quality is higher than the price rather than if the price is high for lower quality. Customers will always prefer goods that are functional, have an excellent design,

and meet all their needs. Schnaars (1991) argues that "quality products are those that need less repair and last longer than competitors' products" (p.).

3.5 Contribution Margin

According to Palma (2019), the contribution margin enables to identify the extent to which producing a particular product, item or service is profitable for a company. The contribution margin allows the company to identify the profitability of production; from the results obtained the company can take corrective actions to optimize resources. This involves an analysis of the behavior of some aspects linked to the margin, such as purchases, gross profit on sales, and variable costs, which will determine the projections and goals of the contribution.

In practice, businesses employ a variety of methods to calculate the price of a product or service; however, in this article, we will delve into two of the most commonly used methods: calculation of the price over the selling price and calculation of the price over the cost price.

One way to determine the price of the product is to calculate the price as a contribution percentage of the sales price. This method is effective as long as the price actually generates the expected sales level and it has its drawbacks when businesses or ventures fail to achieve their sales target. As pointed out by Goñi-Avila, when sales are lower than expected, "the total unit cost is higher than it was calculated since the final cost is distributed into fewer units sold, and finally the price at which the product should have been sold would also have been higher" (2008, p.). In this scenario, if sales are lower than expected, many companies sacrifice the contribution percentage in an effort to maintain the initial price. In this case, the contribution margin is expressed as a percentage of the total unit cost, and the price is calculated as shown in equation 2.

In the second method, the calculation of price as a contribution percentage of the cost, the contribution margin is a percentage of the price that affects sales.

This method is straightforward because businesses need only consider the contribution percentage that they are willing to obtain on costs. It is safer for companies to base price decisions on costs rather than demand since they would have to make adjustments more frequently as demand fluctuates (Goñi-Avila, 2008); moreover, costs are frequently only considered on a linear basis. Price based on a contribution margin over the selling price is calculated as shown in equation 3:

$$Pv_1 = \frac{C}{1 - \%_i} \quad (2)$$

$$Pv_2 = C(1 + \%_i) \quad (3)$$

Cadena (2011) defines the variables as follows:

Pv = Final selling price
C = Costs

%i = Contribution percentage

Although the differences in the contribution margins between the two approaches may appear to be small, this is not the case when dealing with high sales volumes. When the contribution level in relation to the price tends to one, the calculated price becomes so high that the contribution percentage must be infinite to achieve its equivalence with respect to the cost.

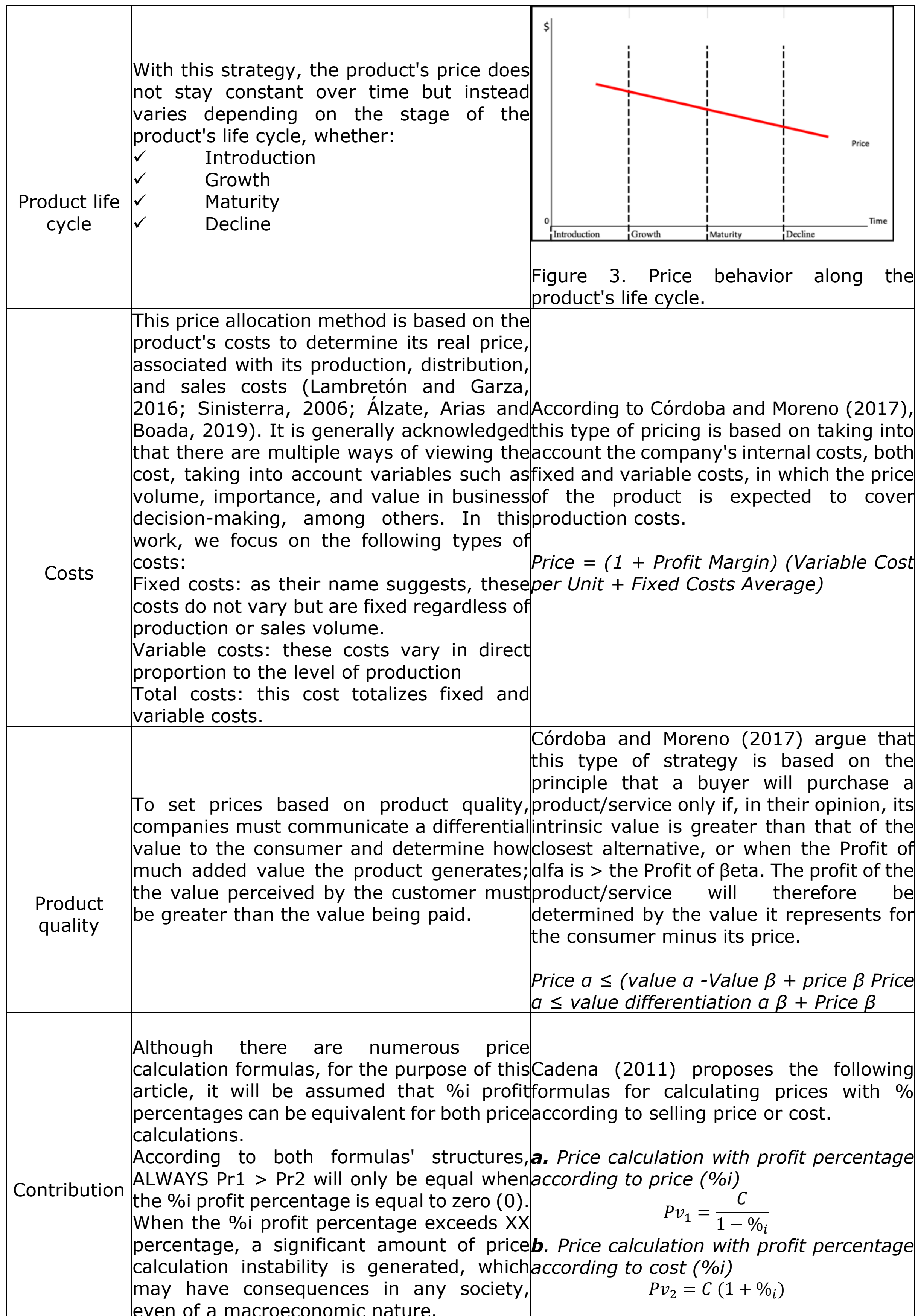
It should be noted that despite being straightforward and frequently employed by businesses or ventures, these methods do not ensure reaching the company's sales target as they do not consider the demand or the life cycle, nor do they guarantee that a profitable price will be obtained. Therefore, their scope is practical but limited since "price management should arise from a commercial decision and not from a difference in numerical calculation" (Fernández and Loiácono, 2001).

4. Results and Recommendations

Since price is the primary factor in a consumer's purchase decision, firms must implement an adequate pricing strategy. Table 1 illustrates the six pricing determinants that every venture or small business can utilize when setting a selling price for its product or service. The table also summarizes the key factors that must be taken into account when setting prices, including customer perceptions of product value, costs that are crucial in determining the price ceiling, the nature of the market and demand, the product's life cycle, competition and quality. Today, calculating a product's pricing entails more than just following a mathematical formula; it also involves taking into account several factors affecting the setting of the price. Competitive pricing is one that is managed strategically to obtain sustainable profitability.

Table 1. The Six Pricing Determinants

The Six Pricing Determinants		
Competition	Basing prices on those of competitors is a particularly helpful strategy for businesses aiming to obtain a competitive sales advantage. In this case, the major companies in the sector set the standard and the others follow suit, establishing the bounds within which prices must fluctuate for the buyer to purchase the good. The differential advantages become the weapon used to obtain some additional margin over competitors' prices. However, it is not always necessary to set prices lower than those of rivals; in fact, depending on the company's overall strategy, pricing may even be higher if, for instance, the product positioning is superior to that of the competition.	
Consumer	The goal of this strategy is to determine the price that the customer is willing to pay based on their perceptions of the product. Consumer-based pricing implies that companies understand how much value the customer places on the benefits they receive from the product, and the company should set a price that reflects such value.	We draw from the approach of Diaz, Rondán and Díez de Castro (2013), who argue that "if a company wants to sell a product A at a more competitive price than competitor B, it must take into account the following condition: Perceived value of product A ≥ Perceived value of product B” (p.).

Product life cycle	With this strategy, the product's price does not stay constant over time but instead varies depending on the stage of the product's life cycle, whether: ✓ Introduction ✓ Growth ✓ Maturity ✓ Decline	 Figure 3. Price behavior along the product's life cycle.
Costs	This price allocation method is based on the product's costs to determine its real price, associated with its production, distribution, and sales costs (Lambretón and Garza, 2016; Sinisterra, 2006; Álzate, Arias and Boada, 2019). It is generally acknowledged that there are multiple ways of viewing the cost, taking into account variables such as volume, importance, and value in business decision-making, among others. In this work, we focus on the following types of costs: Fixed costs: as their name suggests, these costs do not vary but are fixed regardless of production or sales volume. Variable costs: these costs vary in direct proportion to the level of production Total costs: this cost totalizes fixed and variable costs.	According to Córdoba and Moreno (2017), this type of pricing is based on taking into account the company's internal costs, both fixed and variable costs, in which the price of the product is expected to cover production costs. *Price = (1 + Profit Margin) (Variable Cost per Unit + Fixed Costs Average)*
Product quality	To set prices based on product quality, companies must communicate a differential value to the consumer and determine how much added value the product generates; the value perceived by the customer must be greater than the value being paid.	Córdoba and Moreno (2017) argue that this type of strategy is based on the principle that a buyer will purchase a product/service only if, in their opinion, its intrinsic value is greater than that of the closest alternative, or when the Profit of αlfa is > the Profit of βeta. The profit of the product/service will therefore be determined by the value it represents for the consumer minus its price. *Price α ≤ (value α -Value β + price β Price α ≤ value differentiation α β + Price β*
Contribution	Although there are numerous price calculation formulas, for the purpose of this article, it will be assumed that %i profit percentages can be equivalent for both price calculations. According to both formulas' structures, ALWAYS Pr1 > Pr2 will only be equal when the %i profit percentage is equal to zero (0). When the %i profit percentage exceeds XX percentage, a significant amount of price calculation instability is generated, which may have consequences in any society, even of a macroeconomic nature.	Cadena (2011) proposes the following formulas for calculating prices with % according to selling price or cost. ***a.*** *Price calculation with profit percentage according to price (%i)* $Pv_1 = \frac{C}{1 - \%_i}$ ***b.*** *Price calculation with profit percentage according to cost (%i)* $Pv_2 = C\ (1 + \%_i)$

5. Conclusions and Discussion

Pricing is one of the main decisions that a company must make when introducing a new product or service to the market. This is because the price is one of the most significant communication factors for the company, the market, the competition, and the consumer.

No one pricing strategy can be singled out as the best or ideal because each company determines its strategy in accordance with the goals it pursues. For this reason, to establish or set a price, it is necessary to have a strategy or policy that encompasses the goals of the business, and which is assertive with the characteristics of the product or service to offer. It is also necessary to consider that the strategy requires a solid cost structure, so businesses should aim to reduce costs and increase margins. However, pricing cannot be solely based on the analysis of costs. Businesses must also take into account and consider important factors such as competition, which objectively serves as a benchmark for a product's or service's level of market competition before being used to determine a price's break-even point. While costs examine the base or low price, the competition is the one that will set the highest price that can be reached. Furthermore, analysis and knowledge of the market's characteristics will enable the venture to compare its product and assign an added value, facilitating a higher level of consumer pleasure and attraction.

Therefore, it is necessary to understand that the price is important for more than just the economic value that it will imply to the consumer. Since it gives the consumer valuable information about the good or service, it is also necessary to understand the type of consumer to whom the product is directed, analyze their interests, and understand what drives them to purchase a good or service and what needs it must satisfy. Thus, a significant portion of the information that the price provides to the consumer is based on the product's quality. Most authors concur that the added value provided by the product or service is important, whether it be economically through promotional prices or in the product's attributes, such as its durability, its presentation, and even the level of originality or innovation it offers.

The contribution margin and the life cycle of the product are two additional factors of the utmost importance when setting a price because they are more oriented to the venture's goals or policies. The first is necessary because it will enable the company to determine the level of profitability from producing the good, and the second will provide the venture with information on the path that this product or service will follow from the moment it first enters the market until it is withdrawn. Both elements are necessary since they will enable the company to establish its business goals and targets and those of the product or service itself, allowing for the creation of a cost policy that is both internally and externally coherent.

Most authors highlight pricing as one of the most crucial business decisions, so this should be preceded by an objective analysis of all relevant elements and

factors. Some authors mention the marketing mix, while others suggest prioritizing these elements amongst costs, consumers and the competition, which would make cost-based pricing more relevant. Although some authors disagree on the significance of a particular aspect, everyone agrees on the value of thoroughly examining all of the price-influencing factors. All the elements found in the different authors were synthesized in the six pricing determinants that combine and systematize those key elements to create a pricing policy. Hence, a pricing policy is proposed which is flexible and offers the various types of ventures a pricing orientation that will not only serve as a guide but also help establish a pricing policy as a fundamental element to achieving loyal customers and good profitability, enabling their long-term positioning in the market.

References

Álzate, I., Arias, C. y Boada, A. (2019) "Impacto del costo Landed en la competitividad de las Pymes colombianas". En: *Semana de la investigación y la innovación, memorias*. Sabaneta: Fondo Editorial CEIPA.

Cadena, J.B. (2011) "La teoría económica y financiera del precio: dos enfoques complementarios". *Criterio Libre*, 9 (15), pp. 59-80.

Calderón, P. (2015) *Técnicas de fijación de precios*. Tesis de maestría. Escuela Politécnica Nacional de Ecuador.

Cárdenas, R.A. (2006). *Administración de costos. Métodos modernos de costos y manufactura*. Ciudad de México: McGraw-Hill Interamericana.

Córdoba, C.M. y Moreno, D.F. (2017) "La importancia de una buena estrategia de fijación de precios como herramienta de penetración de mercados", *Tendencias*, 18 (2), pp. 58-68.

Cuevas-Villegas, C.F. (2002) "Fijación de precios Costo Plus (Costo más margen) y Target Costing (Costeo Objetivo)", *Estudios Gerenciales*, 18 (83), pp. 13-30.

Díaz, I.M., Rondán, F.J. y Díez de Castro, E.C. *Gestión de precios*. Madrid: ESIC Editorial.

Fernández, A.N. y Loiácono, D.D. (2001) *Precio y valor. Claves estratégicas del éxito empresario*. Buenos Aires: UGERMAN Editor.

Fonseca, C.M. (2012) *Factores que afectan la toma de decisión de los precios a nivel internacional*. Tesis de doctorado. Universidad Complutense de Madrid.

Friedman, M. (1976) *Price Theory*. Aldine: Transaction Publishers.

Gómez, M.Á. (2013) "Análisis y evaluación de la competencia". En: Esteban, Á. y Modéjar, J.A. Eds. *Fundamentos de marketing*. Madrid: ESIC Editorial.

Gómez, M.S. y Sequeira, M. (2015) *Estudio del comportamiento del consumidor: tendencias de consumo y factores determinantes del comportamiento del consumidor*. Tesis de pregrado. Universidad Nacional Autónoma de Nicaragua.

Gonzaga, S.J., Alaña, T.P. y Yánez, M.M. (2018) "Estrategias para la fijación de precios de productos de consumo masivo en la provincia de El Oro", *Universidad y Sociedad*, 10 (2), pp. 221-227.

González-Vega, M.F. y Córdoba-Zúniga, Y.P. (2016) *Mezcla de marketing: estrategias de fijación de precios*. Tesis de pregrado. Universidad Nacional Autónoma Nicaragua.

Goñi-Ávila, N. (2008) *El precio: variable clave en el marketing*. Ciudad de México: Pearson Educación.

Guerrero, P.P., Hernández, D.F. y Díaz, L.G. (2013) "Metodología para la fijación de precios mediante la utilización de la elasticidad precio-demanda. Caso

tipo: repuestos del sector automotor", *Apuntes del CENES*, 31 (54), pp. 9-36.

Guevara, R. (2016) "El estado del arte en la investigación: ¿análisis de los conocimientos acumulados o indagación por nuevos sentidos?", *Revista Folios*, 44, pp. 165-179.

Hansen, D.R. y Mowen, M.M. (2007) *Administración estratégica de costos. Administración de costos, contabilidad y control*. Ciudad de México: Cengage Learning Editores S.A.

Horngren, C.T., Datar, S.M. y Rajan, M.V. (2007) *Contabilidad de costos. Un enfoque gerencial*. Ciudad de México: Pearson Educación.

Ishikawa, K. (1988) *¿Qué es el control total de calidad? La modalidad japonesa*. Bogotá: Grupo Editorial Norma.

Kaplan, R.S. y Cooper, R. (1998) *Coste y efecto: cómo usar el ABC, AMB y el ABB para mejorar la gestión, los procesos y la rentabilidad*. Madrid: Grupo Planeta.

Kim, W.C. y Mauborgne, R. (2005) *La estrategia del océano azul*. Bogotá: Grupo Editorial Norma.

Kotler, P. y Armstrong, G. (2013) *Fundamentos de marketing*. Ciudad de México: Pearson.

Lamb, C.W., Hair, Jr. J.F. and Mcdaniel, C. *Marketing*. Ohio: Cengage Learning.

Lambretón, V. y Garza, G. (2016) *Clasificaciones de los costos. Costos para la toma de decisiones*. Ciudad de México: Pearson Educación.

Larrea, P. (1991) *Calidad de servicio. Del marketing a la estrategia*. Madrid: Ediciones Díaz de Santos S.A.Márquez, A. (2005) "Una mirada integral a la decisión de precios de la organización", *Visión Gerencial*, 1, pp. 42-52.

Mayorga, Ó., Contreras, L.E. y Vargas, L.F. (2009) "Análisis de costos y utilidad del ciclo de vida del producto", *Revista Tecnura*, 12 (24), pp. 99-108.

Mejía, C.A. (2012) "Métodos para la determinación del precio". *Documentos Planning*, 4 (76), pp. 1-4.

Mohammed, R. (2006) *El arte del precio: descubra los beneficios ocultos que harán crecer su negocio*. Madrid: Empresa Activa.

Montoro, C. y Navarro, A. (2010) "Estimación de la Q de Tobin para la economía peruana", *Revista Estudios Económicos*, 19, pp. 33-45.

Nagle, T.T. y Holden, R.K. (1998) *Estrategia y tácticas para la fijación de precios: guía para tomar decisiones beneficiosas*. Buenos Aires: Ediciones Juan Granica S.A.

Osorio, J.D. y Correa, F. (2004) "Valoración económica de costos ambientales: marco conceptual y métodos de estimación". *Semestre Económico*, 07 (13), pp. 159-193.

Palma, G. (2019) *Incidencia del margen de contribución en la toma de decisiones gerenciales de empresas panificadoras*. Tesis de maestría. Universidad de la Costa.

Pérez, D. y Pérez, I. (2006) *El precio. Tipos y estrategias de fijación*. Tesis de maestría. Escuela de Organización Industrial.

Pérez, D., Solana, P. y Trigueros, S. (2018) "Economía del dato y transformación digital en PYMES industriales: Retos y oportunidades", *Economía Industrial*, 409, pp. 37-45.

Raiteri, M.D. (2016) *El comportamiento del consumidor actual*. Tesis de pregrado. Universidad Nacional de Cuyo.

Restrepo, N. (2007) *Estrategia de precios: un enfoque de mercadeo para los negocios*. Medellín: Fondo Editorial Universidad EAFIT.

Rodríguez, M.A. (2015) "Política de fijación de precios: una nueva metodología basada en la estructura de costos-competencia de la empresa". *Revista Internacional Administración & Finanzas*, 8 (2), pp. 121-129.

Rojas, S. et al. (2020) "Tecnologías digitales emergentes en emprendimientos y Mipymes (Colombia)", *Documentos FCE-CID Escuela de Administración y Contaduría Pública*, 39, pp. 1-27.

Ruiz, E. y Parreño, J. (2013) *Dirección de marketing: variables comerciales*. Alicante: Editorial Club Universitario.
Ruiz, N. (2016) *Análisis de precios y promociones en el entorno detallista*. Tesis de maestría. Universidad de Oviedo.
Sanabria, P.E., Romero, V. del C. y Flórez, C.I. (2014) "El concepto de calidad en las organizaciones: una aproximación desde la complejidad", *Universidad & Empresa*, 16 (27), pp. 165-213.
Sánchez, C.R. (2012) *Administración y estrategias de precios*. Ciudad de México: McGraw-Hill Interamericana.
Sánchez, E. (2015) "Ciclo de vida de producto. Modelos y utilidad para el marketing", *Anuario del Centro de la Universidad Nacional de Educación a Distancia en Calatayud*, 21, pp. 207-227.
Sánchez, I., Benítez, F. y Arias, E. (2015) *El precio en el marketing*. Machala: Universidad Técnica de Machala.
Schnaars, S.P. (1991) *Estrategias de marketing. Un enfoque orientado al consumidor*. Madrid: Díaz de Santos S.A.
Sinisterra, G. (2006) *Contabilidad de costos*. Bogotá: Ecoe Ediciones.
Stanton, W.J., Etzel, M.J. y Walker, B.J. (2007) *Fundamentos de marketing*. Ciudad de México: McGraw-Hill Interamericana.
Suárez, A.S. (1985). *Diccionario económico de la empresa*. Madrid: Pirámide.
Talaya, A.E. et al. (2008) *Principios de marketing*. Madrid: ESIC Editorial.
Tracy, B. (2015). *Mercadotecnia*. Madrid: Grupo Nelson Inc.
Vale, C. y Valesca, S. (2007) "La comunicación en el marketing", *Visión Gerencial*, 2, pp. 196-206.