**FIJACIÓN DE PRECIOS /ASSIGNMENT: PRICE FIXING (B6)**

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1. **PRICE AS RENTABILITY FACTOR**



It has been said in multiple documents, that price is the element of the mixture of marketing that generates income for a firm, therefore it is of vital importance to fix it in a proper manner, for a firm to reach its objectives and becomes not just a firm but a profitable business.

However many firms, mostly the smaller ones, fix their prices in an inadequate manner as they sacrifice their profits in order to be able to sell, but in the long run, a price war is unsustainable for a micro, small, or medium firms and eventually disappearing.

Well, then: Which elements or factors must we consider at the time of fixing a price in the right way?

Firstly, and obvious to a certain point, costs must be determinate. A deep and minute analysis of the company costs must be prepared. Not only the costs of raw material but since expenses incur from the first moment that doors are open for business these expenses must be included in the sale price.

These will enable the company to become a durable and profitable for its owner. The study of cost is divided en two items: Fixed and variables, the former as its name indicates, are represented by those expenses that remain unchanged for a longer periods of time as salaries, rent, subscriptions and others alike.

The later, are those that for its nature vary from month to month, as power bills, utilities bills, prices of raw materials, inputs and supplies.

Once the study of these factors is done, the next point is: Rentability. How rentable do we want the firm, the product, or the brand, to be in the future?

This depends in the expected profits, and the time estimated to become rentable; the shorter the time, the price will be higher. Obviously, it is indispensable to analyze the type of product to which the price is being fixed, as its characteristics and nature would be crucial at this stage.

A third element that cannot be ignored is competence. Whether we like it or not, there will always be other options able to substitute our product.

Besides the routine comparisons that customers make to choose which product or brand fulfill their expectations. We must be careful with the competition factor, considering that if we establish a lower price to our product, we may be perceived as a lower quality product; if we have the same price, it may say that we do not offer a better product than the competition, and the customer decision will be determinate for other elements which may in a way be subjective ( such as the containers, the colors, etc. ) and if we have a higher price, we would need to justify it with an additional something like a plus that the other brands lack and make our targeted market to choose it even with the extra cost it represents.

The last element, many times ignored or not mentioned is the value, this, being that extra which may be given to the product in order to make it cost more of its actual cost. The idea is to offer a superior product, either in status, Life style, or simply a product closer to what the customer seeks. Creating a product of prestige or simply that the customer perceives that the product is really better than the options. The aim is to find which problems the product solves and to convert it in the first option for the market, in this way the positioning will be organic and the superiority will be notorious.

This last point is not easy, but once the procedure and the correct strategy the long term benefits would become enormous.



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