## Introduction

Companies must carefully think about their goals and plan when setting the prices for their goods and services. While some price strategies are aimed at making the most money, others are meant to increase sales and market share. For example, costs, customer demand, competitor prices, and how the brand is positioned generally can all affect the price. There are two common but different ways to set prices: entry pricing, which aims to get a bigger share of the market, and skimming pricing, which gets the biggest gains right away. For a better understanding of the main factors that affect pricing strategy, let us look more closely at the differences between price goals that focus on making money and those that focus on making sales.

## Profit-Oriented vs Sales-Oriented Pricing Objectives

As the name suggests, profit-oriented pricing goals focus on setting costs so that a product or service makes as much money as possible. “Profit orientation refers to a company or organization's focus on making a profit, or financial gain, as its primary goal. This can include actions such as cutting costs, increasing revenue, and maximizing efficiency in order to increase profits” (Profit Orientation, n.d.). Companies that take this method often use tactics like charging more for luxury items or taking the prices of new, innovative products. The goal centers around extracting the highest possible margins and profits from each sale.

In contrast, sales-oriented pricing aims to set prices low enough to stimulate high sales volumes and revenue growth. “A sales-oriented approach to business positions the company's sales team and marketing promotions ahead of customer needs and market research” (Indeed Editorial Team, 2022). The primary focus shifts to capturing widespread adoption and a large market share rather than short-term profits per unit. Examples include penetration pricing for new market entries, loss leader pricing, and promotional discount pricing. Sales-oriented pricing can also support increased production economies of scale. “The main hallmark of a sales-oriented business approach is using a company's resources to develop product promotions and sales techniques rather than market research to improve sales” (Indeed Editorial Team, 2022).

## Key Factors in Pricing Decisions

Multiple factors influence how companies approach pricing strategy. Production costs obviously form the baseline for pricing above a minimum level to cover expenses and generate income. However, companies must also account for perceived value to the customer. Premium prices may be viable for differentiated or luxury products with distinctive branding.

The pricing landscape and competitive environment represents another crucial consideration. Companies need to assess competitor pricing as a reference point and whether to position themselves as a premium, low-cost, or mid-range option. Customer demand characteristics and pricing sensitivity also factor into the equation depending on whether the product is a consumer necessity or discretionary purchase.

Finally, the company's overall marketing strategy comes into play when setting pricing. For instance, a skimming strategy may align with a skim pricing approach to maximize profits initially before facing more competition. Penetration pricing could complement a marketing plan to increase market share rapidly.

## Penetration Pricing vs Skimming Pricing

The penetration and skimming pricing strategies take opposite approaches, despite both frequently applying to new product introductions. A penetration pricing strategy sets initial prices low to undercut the market and encourage adoption by price-sensitive customers. This makes sense for products with high future demand elasticity. Skimming pricing, on the other hand, involves setting a relatively high initial price to achieve the maximum profit margins from initial customer demand. It capitalizes on being a first mover with temporary market exclusivity. The skimmed profits can then subsidize future price reductions as more competition emerges over time.

## Conclusion

Ultimately, whether a profit-oriented or sales-oriented pricing approach makes more sense depends on numerous factors. Each pricing objective involves distinct strategic advantages and drawbacks to weigh against corporate goals, production costs, competitive forces, demand characteristics, and other variables. Penetration and skimming pricing demonstrate two fundamentally different tactics for penetrating a market with a new product offering. Choosing the appropriate pricing strategy requires careful analysis to optimize a firm's positioning and financial performance.

References:


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