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TARGET B-A*

Year 12 & 13

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A-Z Business Training Ltd

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Ian Marcouse, June 2020

Edexcel Business A Level

TARGET B-A*

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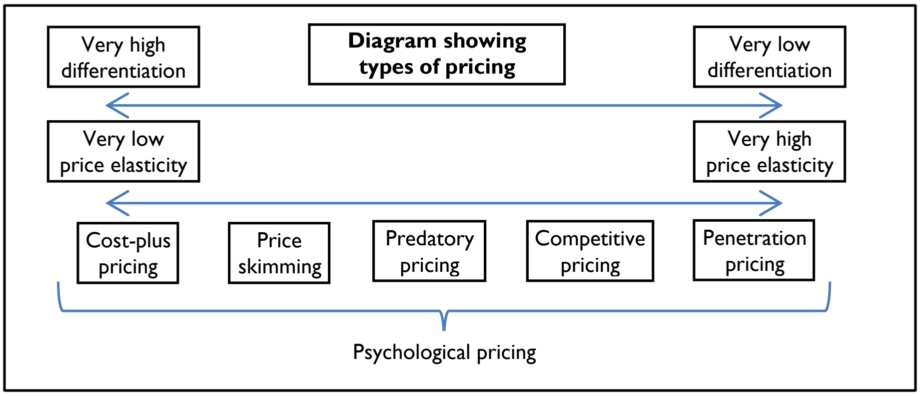
Revision Lists and Linkages

Pricing strategy

Grade C/B. Getting the basics

A pricing strategy is a medium-long term decision about where to pitch the price of your product/service – usually in relation to your competitors. The only exception is cost-plus pricing, which means calculating your total cost per unit then adding a % mark-up that you decide yourself. Implicitly, you're so in control that you don't need to worry about the competition. Chanel can do this, as can Apple (see diagram below). The other outlier is psychological pricing, which is a potential addition to any chosen strategy, e.g. pricing below a psychological price barrier, at £99.99 instead of £105.00. Again, the diagram helps show this.

Grade B. What's the key issue?



Grade B/A. Why it matters

Pricing strategy matters because pricing affects everything: both elements of revenue (price and sales volume) and it also sets an effective ceiling on production costs. So if price is set too low, it may be impossible to establish a sustainable business. In an ideal world, price skimming or cost-plus are the paths to success.

Grade A. The counter-argument

It could be argued that too many businesses kid themselves about their power to set prices. In a busy high street, a kebab shop may not be able to charge a penny above £4.99. No-one would choose this situation, but the market is imposing competitive pricing on you. You then must cut costs to cope within a £4.99 price.

Grade A* The critical perspective

Businesses crave certainty: to be able to forecast the coming year's revenues with confidence. For that, you need differentiation high enough to make price elasticity low enough to be able to charge what you like (within reason). If that's your situation you can choose between skimming or cost-plus, without fear of your rivals.

Do remember that new companies or those launching new products have to decide between skimming and penetration. And that's at launch, before a brand has been established and before you know how customers are going to respond. That's a difficult and important decision. That's why bosses are (sometimes) worth the big bucks.

Don't forget the importance of pricing psychology. Not only at psychological barriers such as £9.99, but also at every stage in pricing decision making. If BMW chose to cut a car's price, it wouldn't announce it. It would worry about damage to its image.

Exam tip: beware of muddling price penetration and predatory pricing. The latter is a deliberate attempt to kill off weaker rivals.

Pricing strategy: constructing logic chains (to get to the top response level)

Chain 1. Occasionally, government contracts are given on a cost-plus basis (1)…allowing the contractor to take its time and build up the production costs (2)… in the knowledge that higher costs mean bigger mark-ups (3) ... and higher profit (4). Giving out such contracts is reckless in the extreme (5).

Chain 2. To use predatory pricing you have to have a strong financial position (1) … so that you can hold prices low enough to drive rivals out of the market (2)… without damaging your own position too badly (3). Deliberate predatory action is illegal (4)… but virtually impossible to prove in a law court (5).

Assessment of a country as a market (ii)

Grade C/B. Getting the basics

In addition to economic factors, the assessment of a country has to include political factors: these are the ease of doing business, the political stability of the country and the infrastructure. Political stability is a factor that might be taken for granted in most developed economies. But countries such as Sierra Leone, Nigeria and Ethiopia have had civil wars in relatively recent times. Others like Sudan have major street protests in which hundreds may be killed. Despite this carnage political stability may be little help to businesses if it means a corrupt ruler is in power for decades, perhaps forcing firms to give bribes to win contracts.

Grade B. What's the key issue?

The biggest issue might be 'ease of doing business'. If UK firms believe it's easier to do business in Ghana than Nigeria, they invest accordingly. The bottom row is a composite of hundreds of different measures such as the three selected below.

Source: Doing Business, World Bank 2020	Ethiopia	Ghana	Nigeria	Sierra Leone	UK
Time to start a company (days)	32	13	7	8	4
Time to get electricity (days)	95	55	119	82	46
Cost of electricity connection (as % of GDP p.c.)	768.5%	632%	297.9%	5057.2%	23.1%
Country rank (out of 190)	159	118	131	163	8

Grade A. Why it matters

Ease of doing business matters because it's a measure of the external obstacles put in the way of starting up in a country. It's largely a consequence of bureaucratic rules that were established to give protection for local firms. When the obstacles are as great as in Ethiopia, even though the economy has strong economic growth a UK firm might decide that it will be too hard, and take too long, to break even.

Grade A. The counter-argument

The World Bank's ranking on Ease of doing business can be questioned. China is No 31 and India No 63 – the UK at 8 – yet China and India have average growth rates of around 3 times the UK level. What does 'ease' mean if it's not associated with growth? For more than 20 years western companies have poured investment into China. They saw opportunity, not ease.

Grade A* The critical perspective

For decades international institutions have been influenced by American suspicion of 'big government'. So Ease of doing business largely means allowing companies to do what they want within a free market. There is no doubting the value of individual enterprise and initiative, but wealthy countries such as Sweden have shown that government and business can co-exist. Perhaps infrastructure outweighs 'ease'

Infrastructure means the underpinnings of a modern society, including clean water, electricity, transport, healthcare & education. In a country like ours, these are provided by the state, financed by taxation and largely free for the use of private sector companies. In developing countries their absence hits hard at the nation's competitiveness.

Political stability: no-one doubts the damage caused by instability, but it's important not to make too many assumptions. Between 1990 and 2015, western analysts predicted social disorder when the Chinese people demanded democracy. UK firms such as JCB held back, waiting for revolution. And still waiting.

Exam tip: don't confuse the factors involved in a country as a market with those for a production location (next page).

Assessment of a country (ii): logic chains (to get to the top response level)

Chain 1. A country's infrastructure matters in many ways (1)…including the speed & cost of transport (goods in and goods out) (2)…and therefore the prices you'll have to charge for the products (3). And in Africa a major issue is unreliable electricity supply (4)… making products like fridges hard to sell (5).

Chain 2. Assessing a country as a market is a classic Ansoff risk situation (1)…in which the rewards may be considerable (2)…but it's vital to think beyond macro factors such as infrastructure (3)… to consider the micro aspect: the results of market research (4). Do locals really want your products? (5).

Top Revision Concepts and Links

Top 16 Concepts for Theme 3

Concept	Why it's special	What it links to:
Corporate mission, aims & objectives	Senior staff must have clear aims and objectives so that they can be communicated clearly to stakeholders, especially the staff	Leadership styles, P 38 Stakeholders, P 102 International trade/growth P 118
Ansoff's matrix	This is the key concept about risk and reward, emphasising as it does the high levels of risk in straying away from your core business	Business choices, P 44 Key factors in change, P 112 Country as a market, P 126 & 127
Porter's Strategic matrix	One of the business world's greatest theories: either be the lowest cost producer or maxim-ise differentiation (avoid being in the middle)	The market & differentiation, P 6 (Zero) budgeting, P 57 Global competitiveness, P 131
Competitive advantage through distinctive capabilities	The two most important guarantees of long-term competitive advantage: strong positive culture and strong collective expertise	Quality management (TQM), P 68 Corporate culture, P 101 Global competitiveness, P 131
SWOT analysis	Important because it's the most widely used business theory/model – highly accessible as a way to involve staff in business strategy	Business choices, P 44 Impact of external influences, P 84 Key factors in change, P 112
Porter's 5 Forces	World-famous method for analysing the strength/weakness of a company's current position in its marketplace	Business failure, P 63 Competitive environment, P 75 SWOT analysis, P 83
Economies and diseconomies of scale	Apparently simple theory that proves very difficult for candidate to use successfully in exams. Important when considering growth	Growth, P 86 & 87 Mergers and takeovers, P 88/89 Reasons for staying small, P 91
Mergers and Takeovers	Inorganic growth in this way has huge implications for company goals, decision-making, culture and financing	Corporate culture, P 101 Business ethics, P 103 Ratio analysis, P 105 - 107
Quantitative decision making: invest appraisal & decision trees	These are decision-making alternatives, each trying to encourage quantified, 'scientific' decisions instead of hunch/subjectivity.	Quantitative sales forecasting, P 92 Business choices, P 44 Corporate influences, P 100
Projects into practice: CPA	Once a decision's made or a new strategy decided upon, it's vital that implementation should be timely and efficient: time for CPA	Decisions and resources, P 82 Key factors in change, P 112 Global competitiveness, P 131
Short-termism	Vital, because if there's a 'British disease' this is it. For Brexit Britain to succeed, we need braver long-term thinking and investment	Corporate objectives, P 78 Stakeholders, P 102 Global competitiveness, P 131
Corporate culture	Tricky topic because it's a bit mushy/waffly, yet research keeps proving its importance in business success, especially with take-overs	Leadership styles, P 38 Mergers and takeovers, P 88/89 Business ethics, P 103
Stakeholders	A frequently-examined topic that incorporates other issues such as ethics, the environment and the British focus on shareholder profits.	Mergers and takeovers, P 88/89 Corporate influences, P 100 Business ethics, P 103
Business ethics	Easy to refer to, but very hard to analyse and evaluate convincingly. Can businesses make decisions on the basis of morality? Really?	Leadership styles, P 38 Entrepreneurial motives, P 40 Corporate culture, P 101
Assessing competitiveness	Quantitative appraisal of company perform-ance, from a financial and H.R. perspective. Could do with appraisal of marketing as well.	Profitability & Liquidity, P 58-62 Adding value & differentiation, P 10 Global competitiveness, P 131
Managing change	Covid-19 showed how quickly businesses need to pivot in a new direction when faced with a new normal; easy to say … very hard to do	Leadership styles, P 38 Business failure, P 63 Causes/effects of change, P110/111

Edexcel A Level Business

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Ian Marcousé is a former A Level Business Chief Examiner and Chair of Examiners. He advised Edexcel on its current A Level courses in Business and Economics. He now teaches at a central London school and at London University's Institute of Education. He is the Founding Editor and lead writer for Business Review magazine.

Each Easter he runs a 4-day Revision Course for Edexcel A Level Business. Go to the website www.a-zbusinesstraining.com for further details.

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