

How Does Regulation Affect Pricing Strategies?

by Jeffrey Carey



According to an article in 2005 by CFO Publishing, regulation, whether it's through a government or in the form of self-regulation, shapes a business' structure and conduct in its industry. Price regulation would impact the business's profits. To avoid a decrease in your profits, you must formulate a pricing strategy that considers any regulation. It will affect the pricing strategy of your business's products in different ways.



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Restricted Pricing Strategies

Regulations may restrict businesses from trying out certain pricing strategies. For example, it is illegal for you to practice predatory pricing in which you deliberately set the lowest market price for your products. This can occur in jurisdictions where there are government regulations that set price ceilings, including how low or high the prices of products can be set. Ignoring the regulation can cause legal problems for your enterprise, which could dent you financially.

Adapting Pricing for Jurisdictions

Businesses that operate in different jurisdictions will have to formulate numerous pricing strategies for each of the products in their branches of operation, depending on the pricing regulations in each jurisdiction. In international markets, you should be aware of the regulations in each market because violating any of them could incur severe trade penalties.

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Supply and Demand

Regulations, which can involve price controls, can disrupt demand and supply in the affected industry. When product prices in a certain sector are regulated to a high price, it can create excessive supply and diminished demand. Businesses will be forced to sell such products at the highly set price, leading to more thrifty customers unwilling to buy the products because of the high price. Mandating low prices can cause diminished supply and increased demand. In this case, customers will be clamoring to buy the product, but will then find it harder to find the product as manufacturers struggle to keep up with surging demand and have less incentive to manufacture the product because of lower profit margins.

Increased Prices

Regulations may negatively affect consumers when businesses raise product prices. The enterprises operating under the regulation often raise product prices to cover for the costs associated with adhering to the regulation. Regulations -- whether environmental, safety and health, or economic in nature -- can cost cause chain reactions in markets. For example, inspection of food products may prevent diseases, but the expense can raise food prices. Regulation on drugs protects patients from harmful medicine, but also delays production of life-saving products.



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About the Author

Jeffrey Carey is a journalist with more than 15 years of diverse writing experience. He graduated with Bachelor of Business Administration (Hons) in 2002 from the University of Southern California (USC), and later obtained a Masters in Business Administration in 2009 from the same institution.

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