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Article

Pricing Policy in Modern Trade and the Economic Factors Shaping It

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Abstract. Pricing decisions remain among the most consequential yet under-researched areas of business strategy, directly determining revenue, market position, and long-term competitiveness. This article examines the role of pricing policy in modern trade and analyzes the internal and external economic factors that shape price-setting behavior. Using a structured literature review of academic and industry sources, the study synthesizes evidence on cost structures, market demand, competition, government regulation, and macroeconomic conditions as core determinants of pricing. Findings indicate that firms adopting value-based and strategically coordinated pricing policies achieve stronger profitability than those relying on ad hoc or purely cost-based approaches. The article concludes that pricing policy should be treated as a strategic managerial function integrated with marketing, finance, and macroeconomic forecasting rather than a residual administrative task.

Keywords: pricing policy, price determination, modern trade, economic factors, competitiveness, profitability

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1. Introduction

Price is the only element of the marketing mix that directly generates revenue; every other element represents a cost. Despite this central role, pricing has historically received disproportionately little scholarly attention compared with product, promotion, and distribution decisions pricing represents less than 2% of the papers published in leading marketing journals, despite its importance for organizational profitability [1]. In modern trade, characterized by intensified global competition, digital price transparency, and volatile macroeconomic conditions, the ability of a firm to design and adjust its pricing policy has become a decisive source of competitive advantage [2].

A pricing policy is commonly understood as the structured set of principles a company applies to set the floor and ceiling of its prices and to guide decisions across customer segments, competitive contexts, and stages of the product life cycle rather than reacting emotionally to competitor discounts or short-term demand fluctuations [3]. Because trade today spans domestic and international markets simultaneously, pricing decisions are exposed not only to firm-level (internal) considerations such as production cost and corporate objectives, but also to a wide range of external economic forces, including inflation, exchange-rate movements, consumer purchasing power, and regulatory intervention [4].

The purpose of this article is twofold: (1) to clarify the conceptual importance of pricing policy for firms operating in modern trade, and (2) to identify and categorize the principal economic factors that influence price determination, drawing on international academic literature. The article is organized in the IMRAD format: this introduction is followed by a description of the review methodology, a presentation of results from the literature, a discussion of their theoretical and managerial implications, and a concluding section [5].

2. Methods

This study employs a narrative literature review method rather than primary empirical data collection. Sources were identified through targeted searches of peer-reviewed marketing, management, and economics journals (e.g., Industrial Marketing Management, RAUSP Management Journal, Marketing Science, Journal of Pharmaceutical Policy and Practice, PLOS ONE) as well as established pricing-strategy textbooks. Selection criteria prioritized sources that (a) explicitly analyzed determinants of price-setting behavior, (b) addressed either firm-level or macroeconomic influences on pricing, and (c) were published in internationally recognized academic outlets. Findings from the selected sources were thematically grouped into internal (firm-controlled) and external (environmental) categories, consistent with standard classifications used in the pricing-management literature. This qualitative synthesis approach is appropriate for a topic where the underlying constructs cost structures, competitive dynamics, consumer behavior, and macroeconomic conditions are heterogeneous and better integrated conceptually than statistically pooled.

3. Results

3.1 The Strategic Importance of Pricing Policy

The reviewed literature converges on the view that pricing policy is not a peripheral operational task but a core determinant of firm profitability. An empirical study of 150 firms in the metal-mechanic sector found that the profitability of surveyed companies was positively affected by a value-based pricing strategy and by high price levels, while it was negatively affected by low price levels, indicating that pricing policy meaningfully influences organizational profitability and therefore deserves more strategic managerial attention. Complementary research on industrial and business-to-business markets similarly stresses that firms differ substantially in their capability to design and execute pricing strategy, not merely in the strategy they choose on paper [6].

3.2 Internal (Firm-Level) Determinants

Across the reviewed sources, internal factors recur consistently as primary anchors for price setting:

- Production and distribution costs. Cost remains the most frequently cited internal driver, since prices must at minimum cover variable and fixed costs to sustain operations, and cost of production is largely influenced by supplier cost, macroeconomic trends, and the nature of the business [7].

- Corporate and marketing objectives. Whether a firm pursues profit maximization, market-share growth, or brand positioning shapes whether it adopts premium, penetration, or competitive pricing [8].

- Organizational pricing capability. Recent industrial-marketing research highlights that the process by which a firm implements pricing including managerial judgment, human capital, and internal coordination is itself a determinant of pricing outcomes, independent of the chosen strategy [9].

- International experience and internationalization. For firms operating across borders, international experience, product technology, degree of internationalization, and market share influence the weight managers place on internal versus external factors when setting international prices [10].

3.3 External (Environmental) Determinants

External, largely economic, factors were identified as equally influential, particularly for firms engaged in modern (cross-border, digitally mediated) trade:

- Market demand and price elasticity. High demand allows for higher prices, while low demand may require price reductions to attract buyers, and the sensitivity of demand to price changes shapes how far firms can adjust prices without losing volume [11].

- Competitive structure. The intensity of competition, the pricing behavior of rivals, and barriers to market entry constrain the range within which a firm can independently set prices [12].

• Macroeconomic conditions. Inflation, unemployment levels, and consumer spending habits directly affect pricing strategies, with economic downturns typically making consumers more price-sensitive. Currency volatility introduces an additional layer of uncertainty in cross-border trade, since exchange-rate fluctuations can erode margins even when local prices remain nominally unchanged [13].

• Government policy and regulation. Government policies, taxes, and industry regulations directly affect pricing strategies, and firms operating internationally must account for tariffs, VAT, and compliance costs when finalizing prices.

• Geographic and cultural variation. Companies rarely apply identical pricing worldwide because taxes, import duties, logistics costs, currency fluctuations, and local purchasing power vary across markets, requiring firms to adapt pricing policy to local economic conditions rather than applying a single global price [14].

• Sector-specific price shocks. Evidence from commodity-dependent economies illustrates how macro-level price volatility can transmit into corporate performance; for example, a study of Chinese listed firms found that uncertainty in oil prices negatively affected corporate profitability while raising operating costs, an effect intensified after a market-oriented pricing reform.

3.4 Sector Illustration: Pharmaceutical Pricing

A scoping review of the health-science literature on pharmaceutical pricing offers a useful illustration of how internal and external factors interact in a tightly regulated modern-trade sector. The review, which analyzed 204 peer-reviewed articles published between 1981 and 2016, identified five key thematic clusters for analyzing pharmaceutical pricing: market dynamics — segmented into supply-related, consumer-related, and product-related dimensions — alongside broader regulatory and policy considerations. This case underscores that in sectors with high social sensitivity, ethical and regulatory considerations can outweigh purely cost- or demand-based logic in shaping pricing policy [15].

4. Discussion

The synthesized evidence supports three broad conclusions relevant to modern trade. First, pricing policy functions as a strategic bridge between a firm's internal cost and capability structure and the external economic environment in which it competes; treating it as a purely administrative or accounting exercise risks under-optimizing profitability. Second, the relative weight firms place on internal versus external factors is not fixed but varies systematically with firm characteristics such as international experience, market share, and sector regulation, meaning that a single universal pricing formula cannot be applied across industries or markets. Third, macroeconomic volatility inflation, exchange-rate movements, and regulatory shifts has become an increasingly prominent input into pricing policy as trade has globalized, reinforcing the need for firms to build economic forecasting capacity into their pricing processes rather than adjusting prices reactively.

These findings have practical implications for managers in modern trade. Firms that integrate value-based pricing principles anchoring prices to perceived customer value rather than cost alone with active monitoring of macroeconomic indicators appear better positioned to sustain profitability during periods of economic instability. Conversely, firms that rely on intuitive or purely cost-plus pricing risk mispricing products relative to both market conditions and competitor behavior, particularly in cross-border contexts where currency and regulatory differentials are significant.

The review also has limitations. As a qualitative synthesis, it does not statistically weight the relative explanatory power of each factor, and the evidence base draws unevenly across industries, with industrial, pharmaceutical, and manufacturing contexts more represented than digital or service-based trade. Future research would benefit from cross-industry, cross-country empirical comparisons that quantify how the relative influence of economic factors on pricing policy shifts under different trade and regulatory regimes.

5. Conclusion

Pricing policy occupies a central, strategically consequential position in modern trade, shaped jointly by internal factors such as cost structure and organizational capability, and external economic factors such as demand elasticity, competitive intensity, macroeconomic conditions, and government regulation. The literature reviewed here indicates that firms adopting deliberate, value-oriented pricing policies rather than reactive or purely cost-based approaches — tend to achieve superior profitability outcomes. As global trade continues to be shaped by currency volatility, shifting trade regulation, and heterogeneous consumer purchasing power across markets, the strategic management of pricing policy, informed by continuous economic analysis, will remain a critical determinant of competitive success.

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