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Pricing and Public Policy Issues:
A Marketing Perspective

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ABSTRACT

Companies adopt pricing policies to maximize the revenues and profits generated. The study aims at doing a conceptual analysis of the available literature on the policies. Major public policy issues in pricing include unfair pricing practices within distribution channel levels such as price-fixing and predatory pricing, and across distribution channel levels such as retail price maintenance, deceptive pricing, and discriminatory pricing. Companies set dynamic pricing and high prices for products to cover distribution costs, advertising and promotion costs, and excessive mark-ups. Laws and regulations are enforced to ensure that the policies are followed and customers are benefited. Sometimes, it is difficult to ensure that the practices are legal and ethical. Governments and companies should also be aware about the pricing implications of the social goods used by customers. The conceptual analysis will help various stakeholders to appreciate the various policies and issues and develop better pricing policies.

KEYWORDS

Deceptive Pricing, Distribution Cost, Dynamic Pricing, Predatory Pricing, Price Discrimination, Pricing Policy, Promotion Cost, Social Cost

1. INTRODUCTION

Price of a product is one of the determining factors which decide whether a product will get sold in the market or not (Glass & Tardiff, 2017). Customers reveal their intention to buy a product based on its price. Price competition is a core element of free-market economy (Gui, Tang, & Yin, 2019). A number of factors need to be analyzed before setting the price of a product. Also, companies cannot set a price which they wish to. Companies require analyzing a number of public policy issues before setting prices of products. The study presents the public policy issues related to pricing of products. Governments of countries set a number of laws which govern the setting of prices for products. The laws try to ensure that pricing is fair for products. Several federal, state, and even local laws are enforced to ensure this (Blank, 2019). Companies also require analyzing the societal impacts of pricing before setting prices. For example, before setting their prices, pharmaceutical companies should analyze their development costs and profit objectives. Pricing of life-saving drugs also require special considerations (da Fonseca, Teixeira, & do Rosario Costa, 2019). There are various important legislations affecting pricing of products.

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Public policy issues in pricing are of concern to marketers. It is essential for marketers to be aware of such issues, to understand their importance, and to formulate strategies accordingly. The study tries to address the research gap on this important issue. The study focuses on the pricing of products, legislations involved in pricing, and public policy issues in pricing in the context of the United States. Companies should appreciate the macro-economic implications of the public policy issues in pricing and formulate their pricing strategies accordingly.

The main objective of the study is to conduct a qualitative and conceptual analysis of the literature on pricing and public policy issues for companies from a marketing perspective. The study does a conceptual rather than a quantitative analysis of the various public policy issues in pricing.

The methodology adopted is the analysis of the literature on pricing and public policy issues. The papers from the literature were selected for the study based on the relevance and the importance of such papers with respect to the public policy issues in pricing. Also, those papers were selected which highlighted the latest developments on the concerned topic. The study focuses on various public policy issues and the rules and regulations associated with such issues. The study also focuses on the various strategies and initiatives adopted by companies to deal with pricing and public policy issues related to pricing.

The novelty of the study lies in the fact that the study aims at critically analyzing the various public policy issues related to pricing. The study refers to the latest literature on the topic and aims at critically analyzing the literature with arguments. The study compares with the methods adopted in other studies in the sense that it is one of the first studies which aims at conducting a conceptual analysis rather than an empirical analysis.

The study is structured as follows:

Section 2 deals with the various public policy concerns in pricing. Section 3 discusses the pricing policy issues within different channel levels with sub-section 3.1 focusing on predatory pricing policies adopted by companies. Pricing policy issues across different channel levels are discussed in section 4. Sub-sections 4.1 and 4.2 focus on deceptive practices in pricing across channel levels and price discrimination respectively. Dynamic pricing is one of the major pricing issues and it is discussed in section 5. High prices of products are a major concern and the related issues are discussed in section 6 and its sub-sections. Pricing of social goods is an important issue in pricing and it is discussed in section 7. A general discussion of the salient points of the study is done in section 8. Sub-sections 8.1 and 8.2 focus on managerial implications and limitations of the study respectively. Section 9 concludes the discussions with sub-sections 9.1 and 9.2 focusing on contributions of the study and future research directions respectively.

2. PUBLIC POLICY ISSUES AND CONCERNS IN PRICING

Governments of countries need to ensure that fair trade is taking place between countries. Governments formulate a number of legislations to regulate business practices (Vintila, Waisundara, & Lelieveld, 2019). The various forms of legislation to ensure fair pricing include the Robinson-Patman Act, the Sherman Act, and the Clayton Act (Nagle, Hogan, & Zale, 2011). Such regulations help reduce the formation of monopolies and also regulate business practices that might unfairly restrain trade. The regulations are applicable only to interstate commerce. To curb unethical business practices, some states adopt similar provisions which regulate companies that operate locally (Marn, Roegner, & Zawada, 2004). The major public policy issues in pricing include potentially damaging pricing practices within a given level of the channel (price-fixing and predatory pricing) and across levels of the channel (retail price maintenance, deceptive pricing, and discriminatory pricing). Other current issues related to pricing include dynamic pricing, high prices of products, and pricing implications about social goods (Nagle et al., 2011). The following sections and sub-sections focus on the various public policy issues in pricing in the current systems, the laws and regulations governing such issues, and how the companies are handling and overcoming the issues

3. PUBLIC POLICY ISSUES AND CONCERNS IN PRICING WITHIN CHANNEL LEVELS

Marketers should set the prices of their products without getting influenced by competitors (Poldrugovac, Janković, & Peršić, 2019). Federal regulations try to ensure that price collusion does not take place. Sellers involved in such activities may be charged with price-fixing. Price-fixing is illegal and government regulations do not accept any excuses for fixing prices. Companies found guilty of price-fixing may be imposed heavy fines. Governments of various countries are enforcing regulations on price-fixing. The regulations cover various industries like gasoline, insurance, concrete, credit cards, CDs, and computer chips. Price-fixing is illegal in international markets and many international markets prohibit the practice of price-fixing (González, Schmid, & Yermack, 2019). For example, European Union imposes heavy penalties on companies violating the regulations. European Union regulators fined consumer products giants Unilever and Procter & Gamble a massive $456 million for price-fixing. European Union found the companies guilty of fixing prices of laundry detergents in some of the countries of the Union (Vogel, 2012). Unilever, Procter & Gamble, Colgate, and Henkel were also fined by France because of price-fixing charges. It was revealed that officials of the four companies agreed to limits on the size of discounts and on price differences between their laundry detergent brands (Chee, 2011).

3.1. Predatory Pricing by Companies

Predatory pricing is practiced by many companies. Companies sell their own products at below cost to drive competitors out and to capture the market (Mandal, 2020). Companies aim to eliminate competitors from the business. They also aim to win the price war and to generate higher profits in the long run. This strategy becomes a threat for small sellers from larger ones who might sell items below cost temporarily or in a specific locale to drive them out of business (Bialik, Holmes, & Smith, 2010). It becomes difficult for regulators to understand whether companies are adopting this pricing strategy or not. In some instances, companies may sell at prices lower than the cost to eliminate excess inventory. In such cases, the strategy cannot be termed as predatory. The intent of the seller becomes important in such cases. However, it is difficult to understand and prove the intent of sellers conclusively (Leary, 2012).

Several companies have been accused and found guilty of predatory pricing. However, it is difficult to ascertain whether a specific pricing strategy is predatory or not. Consequently, it is difficult to turn an accusation into a lawsuit (Kulik, Alarcon, & Salimath, 2020). Amazon.com adopts a number of pricing policies which publishers and booksellers think are predatory (Kamble & Walvekar, 2020). Publishers and booksellers accuse Amazon.com of adopting predatory pricing policies especially for selling books. Critics are of the opinion that such pricing policies are destroying the industry. Amazon.com sells top-10 best-selling hardback books at less than $10 each. Amazon.com incurs a loss initially. However, in the long run, it is able to capture the market. Recently, Amazon has also started selling e-books at fire-sale prices for its Kindle e-reader. Such low prices help Amazon to attract customers instantly. However, such strategies affect other booksellers and damage the competition. Many critics view such pricing policies as predatory. One critic comments, “The word ‘predator’ is pretty strong, and I don’t use it loosely, but…I could have sworn we had laws against predatory pricing. I just don’t understand why (Amazon’s pricing) is not an issue” (Leary, 2012). However, till date, no predatory pricing charges have even been filed against Amazon.

Another company which has been accused of employing predatory pricing is Wal-Mart. Wal-Mart has been accused of employing such strategies to drive smaller retailers out of the market (Prakasam, 2020). Critics worry that such activities by market leaders will choke out local businesses. Some experts assert that it is a healthy competition where a more-efficient company succeeds against less-efficient ones (Heller, 2013).

Local pharmacists complained of predatory pricing when Wal-Mart started selling generic drugs at $4 a prescription (Heller, 2013). Pharmacists felt that Wal-Mart must be selling at below cost to drive them out of business. However, Wal-Mart argued that it was able to sell at such low prices and generate profits because of its efficiency in operations. Wal-Mart assured pharmacists that the policy was not to drive competitors out of market but a move to serve customers better. The program resulted in other supermarket and discount stores, such as Target and Kroger reducing prescription prices in their pharmacies. Because of such an initiative by Wal-Mart, more than 300 prescription drugs are available for $4 at the various chains. Customers were also able to save more than $3 million (Heller, 2013). As already discussed, it is difficult to prove that companies are adopting such pricing policies purposefully as opposed to only being competitive in the market.

4. PRICING POLICY ISSUES ACROSS CHANNEL LEVELS

Various regulations are enforced to prevent unfair price discrimination across channel levels. The Robinson-Patman Act tries to curb price discrimination by ensuring that at a given level of trade, all customers are offered the same price terms by sellers (Yonezawa, Gómez, & Richards, 2020). According to the act, all retailers are entitled to the same price terms from a manufacturer. This is irrespective of whether a retailer is REI or a local bicycle shop. Price discrimination might be allowed when the costs incurred in selling to different retailers are different. For example, the cost incurred per unit is less when bicycles are sold in bulk quantities to REI than the cost per unit incurred in selling only a few bicycles to local dealers (Nagle et al., 2011).

Price discrimination is permissible for sellers when they sell products of different qualities to different retailers. However, the onus lies on the seller to conclusively establish the difference in quality offered. Charging different prices may be permitted to “match competition” in “good faith”. However, in such situations price discrimination needs to be temporary, localized, and defensive rather than offensive (Caldwell, 2011).

Laws prohibit retail (or resale) price maintenance. A manufacturer needs to pass on the products to the dealers. Once that is done, manufacturers cannot influence the dealers to charge a specified retail price for their products (Martin, 2011). Also, a manufacturer cannot refuse to sell its products to a dealer that takes independent pricing action. A manufacturer may only suggest a retail price to dealers. It cannot also penalize dealers by shipping products late to them or by denying advertising allowances. For example, Nike was once suspected of allegedly fixing the retail price of its shoes and clothing. The Florida attorney general’s office was worried that Nike might not be selling its items to those retailers who are not selling its products at prices as desired by Nike. The office investigated into the matter and settled it (Southon, 2012).

4.1. Deceptive Practices in Pricing Across Channel Levels

Deceptive pricing occurs when sellers offer customers with prices that do not exist. Sellers may also mislead customers by stating incorrect price savings (Hanna & Dodge, 2017). Sellers might compare their own prices with prices that do not actually exist. Sometimes, retailers set artificially high “regular” prices and then announce “sale” prices close to its previous everyday prices. For example, manufacturer’s suggested retail prices were inaccurately listed on Overstock.com. The listed retail prices were higher than they actually were (Caldwell, 2011). Retailers adopt such unethical and deceptive practices to generate instant profits in the short run.

Pricing claims by comparing with competitors’ prices are not always illegal. Such pricing claims are legal if the claims are authentic. FTC has introduced “Guides against Deceptive Pricing” which require sellers not to advertise (1) a price reduction unless it is a savings from the usual retail price, (2) “factory” or “wholesale” prices unless such prices are what they are claimed to be, and (3) comparable value prices on imperfect goods (Deng, Staelin, Wang, & Boulding, 2018).

Various other deceptive pricing strategies which companies follow include scanner fraud and price collusion (Mandal, 2019). At present, retailers use scanner-based computer checkouts to record prices of products sold. Customers complain that most of the retailers charge higher prices. These overcharges may be intentional or unintentional. Unintentional faults may result from poor management, such as failure to enter the correct sales prices into the systems. Critics agree that unintentional faults may occur. However, critics are more concerned about intentional faults which are done to extract more money illegally from customers (Mandal, 2019).

Governments enforce regulations which try to curb deceptive pricing practices. For example, the Automobile Information Disclosure Act requires automakers to attach a statement on the windows of new vehicles stating the manufacturer's suggested retail price, the prices of optional equipment, and the dealer's transportation charges (Fleming, 2018). Sellers try to abide by the regulations. Reputed sellers go beyond the stipulated regulations. Apart from abiding by the regulations, reputed sellers strive to gain customer trust and build strong and lasting customer relationships by treating them fairly. They inform customers about the prices and the terms and policies associated with pricing. They also make sure that customers buy a product only after a proper understanding of the terms and conditions.

Customers accuse marketers of adopting deceptive marketing practices which lead them to believe that products deliver more value than they actually do (Serota, 2019). Marketers adopt deceptive practices mainly for packaging, promotion, and pricing.

Deceptive pricing includes practices such as falsely communicating "factory" or "wholesale" prices or a huge price reduction from a phony high retail list price (Nagle et al., 2011). Regulators try to prevent deceptive practices by introducing different legislation and other consumer protection actions. For example, in 1938, Congress enacted the Wheeler-Lea Act. Federal Trade Commission (FTC) received the power to regulate "unfair or deceptive practices" based on the act (Kendall, 2012). The FTC keeps a close watch on the deceptive practices, evaluates those practices on a regular basis, and publishes several guidelines to prevent such practices. Critics claim that even after enforcement of such regulations, marketers adopt deceptive pricing practices. This happens even for established brands. For example, Skechers paid $50 million to resolve allegations by the FTC and attorneys general for 44 states. Customers of Skechers were informed in the promotions that rocker-bottom Shape-ups and other toning shoes help customers to tone their muscles and lose their weight (Kendall, 2012). Customers also complained about deceptive promotional strategies adopted by Coca-Cola. Coca-Cola made deceptive and unsubstantiated health claims about its Vitaminwater brand (Kendall, 2012).

It is difficult even for regulators to define what "deceptive" pricing is (Gallego & Stefanescu, 2012). For example, the popular and long-running MasterCard Pricing commercials claim that customers can fulfill their dreams despite their costs. Such commercials encouraged individuals to adopt a "spend-now-pay-later" attitude. This resulted in many customers overusing their credit cards without thinking about the consequences (Caldwell, 2011). Such actions resulted in monetary loss to customers and financial crisis of the nation (Kendall, 2012).

Companies try to convince their stakeholders that they avoid deceptive pricing practices. They emphasize that the prices are set keeping in mind the benefits and the value received by customers. Deceptive pricing practices tarnish a company's brand image and reputation. Such practices are not sustainable in the long run. It will be difficult for companies to build and develop customer relationships once the trust is lost, and sooner or later they will move to other reliable competitor products and brands.

Consumers try to safeguard themselves against deceptive practices. They try to understand a marketer's intent in charging deceptive prices. Sometimes, customers do not believe the reasons provided for charging higher prices and are careful when they buy.

4.2. Price Discrimination

Companies often adjust their basic prices to accommodate differences among customers, products, locations, and several other factors (Bonatti & Cisternas, 2020). For example, Lands' End offers men's shirts in different styles, prices, weights, and levels of quality. Based on these parameters, a men's white button-down shirt can cost as little as $19.99 or as much as $70.00 (Lands' End, 2013). Several other companies apply price discrimination for customers by adopting different pricing strategies.

Price discrimination occurs when a company sells a specific product at two or more different prices that do not reflect a proportional difference in costs (Bonatti & Cisternas, 2020). There may be three categories of price discrimination – first-degree, second-degree, and third-degree. In first-degree price discrimination, companies analyze the requirements and demands of customers and charge customers different prices based on different levels of demand (Philips, 2012).

In second-degree price discrimination, companies charge lesser from those customers who buy in large volumes. However, for some products and services, tiered pricing results in customers actually paying more with higher levels of usage (Bagh & Bhargava, 2013). For example, three percent of users accounted for 40 percent of the traffic on AT&T's network in case of mobile phone service with the iPhone. AT&T upgraded its network due to increasing demand and the cost was transferred to customers in the form of higher prices set by firms (Burrows & Kharif, 2010).

In third-degree price discrimination, different customers are charged different prices. Third-degree price discrimination may include customer-segment pricing, product-form pricing, image pricing, channel pricing, location pricing, and time pricing (Philips, 2012). Yield management systems and yield pricing are practiced by the airline and hospitality industries. These industries offer discounted but limited early purchases, and the lowest rates on unsold inventory just before it expires (Bagh & Bhargava, 2013).

Marketers practice price discrimination and dynamic adjustment of prices (Poldrugovac et al., 2019). Companies also try to adjust prices based on inventory levels, item velocity on how it sells, competitor's pricing, and promotions. In sports, prices of tickets vary depending on the demand, the popularity of the sport, who the competitor is, and the timing of the game (Rishe, 2012).

Many companies take the help of latest technologies to access real-time information and to take decisions. They use software to understand and analyze actual customer responses to different pricing schedules (Bagh & Bhargava, 2013). For example, merchants who sell their products on Amazon.com, change their prices regularly, sometimes on a daily or even hourly basis to reflect the demands of customers. This is also done to remain the most relevant search result for potential buyers (Philips, 2012).

Critics are of the view that companies should not vary their prices constantly. Constant variations in prices may affect customer relationships. Research shows that price variation is effective when there is no bond between the buyer and the seller (Barone & Roy, 2010). Companies can defend price variations if they provide products to customers which are of value to them. Customers do not compare prices of products if they feel that the product meets their requirements precisely (Rao & Schaefer, 2013). Many companies apply price variations as a reward than as a penalty. For example, shipping company APL charges less from customers who can estimate how much cargo space they will require. APL also offers them cheaper rates for booking early (Rao & Schaefer, 2013).

Customers prefer paying prices as per the value received from products. They do not want to overpay. They change their buying behavior to accommodate the new realities of dynamic pricing. However, many customers pay higher prices when they cannot judge the value received and when they do not realize that they are being targeted by marketers (Saporito, 2013). Retailers like Office Depot, Home Depot, and Staples vary their online and in-store prices based on a number of factors which include costs of doing business and consumer sensitivity to prices (Angwin & Mattioli, 2012). Some companies even go to the extent of analyzing the zip codes of customers to understand their physical proximity to the stores and charge prices accordingly (Saporito, 2013).

Online travel agency, Orbitz found that individuals who use Apple Mac spend almost 30 percent more on hotel bookings and stays. Based on this information, Orbitz started offering them different and even costlier travel options. Orbitz considers a number of parameters like a user's location, travel history, and hotel's popularity and promotions while targeting individuals (Mattioli, 2012).

Companies practice price discrimination. However, all forms of price discrimination are not legal. For example, it is illegal to charge different prices from different customers within the same trade group. This form of price discrimination is legal if the seller is able to prove that the costs incurred are different when selling products to different groups of customers at different volumes or different quantities of the same product (Elliott, 2013). However, it is illegal when companies employ predatory pricing to sell below cost, destroy the competition, and capture the market (Salmon, 2013).

Price discrimination will be beneficial when companies are able to satisfy certain conditions. First, companies should be able to segment the market based on certain defined criteria. The segments should also show different levels of demand. Second, products meant for individuals in a lower-price segment should not be sold to individuals in a higher-price segment and vice-versa. Third, competitors should not be able to undersell the firm in the higher-price segment. Fourth, the cost of segmenting the market and analyzing the segments should not exceed the revenues generated by applying price discrimination. Fifth, customers should not feel cheated or deprived because of price discrimination. Feelings of deprivation for customers may adversely affect relationships in the long run. Sixth, as already mentioned, the particular form of price discrimination should not be illegal (Cheeseman, 2013).

5. DYNAMIC PRICING

Dynamic pricing is a pricing strategy when companies adjust or modify prices of product continually to meet the changing requirements and preferences of individual customers and situations (Poldrugovac et al., 2019). Many critics are of the view that dynamic pricing is illegal. However, if the intentions are proper and if implemented effectively, dynamic pricing is not illegal. Dynamic pricing is legal when companies do not discriminate individuals based on age, sex, location, or other similar characteristics. Dynamic pricing is effective when it is implemented to adjust prices according to market forces and consumer preferences (Aviv & Vulcano, 2012). However, companies should not apply dynamic pricing with the intention of taking advantage of certain consumer groups. Illegal forms of dynamic pricing may affect customer relationships adversely.

6. HIGH PRICES OF PRODUCTS

Many critics claim that marketers cause prices to be higher than they would be under more "sensible" systems. Such high prices are even more unacceptable during economic downturns. Critics are of the opinion that three issues may result in high prices of products – high costs of distribution, high advertising and promotion costs, and excessive markups (Cheeseman, 2013).

6.1. High Distribution Costs

Marketers are accused of charging higher prices beyond the value of the services provided. Critics feel that one of the reasons for charging higher prices is the high distribution costs incurred by companies. High distribution costs result because of too many intermediaries, inefficiency of intermediaries, and because of providing unnecessary or duplicate services. High distribution costs result in higher prices which are finally passed on to customers (Kendall, 2012).

Resellers defend higher distribution costs incurred by arguing that intermediaries perform those activities that would otherwise have to be done by manufacturers or customers (Granillo-Macias, Gonzalez-Hernandez, Martinez-Flores, Caballero-Morales, & Olivares-Benitez, 2019). Higher markup prices result also because of the demands of customers. These demands may include more convenience, larger stores and assortments, more service, longer store hours, and return privileges. Another argument is that the competition among retailers is so fierce that even after charging higher prices, the margins are quite low. When some resellers charge too much compared to the value added, other resellers start offering lower prices. For example, several low-price stores like Costco, Wal-Mart, and others compel other stores to work more efficiently and offer low prices. In the tough competition and during times of recession and economic downturn, only the most efficient retailers are able to survive and generate profits (Zhao, Zhou, Cao, & Min, 2020).

6.2. High Promotion and Advertising Costs

Critics accuse marketers of charging higher prices from customers to finance heavy promotion and advertising costs (Chen, 2019). Marketers argue that high promotion costs are justified because a brand for which heavy promotion has been done will sell more than an identical non-branded or store-branded product. Many differentiated products like cosmetics, toiletries, and detergents might incur promotion and packaging costs that amount to 40 percent or more of the manufacturer's price to the retailer (Salmon, 2013). Marketers transfer such costs to customers in the form of higher prices. However, critics argue that packaging and promotion add only to psychological value and not to functional value to a product for the customers (Busse, Simester, & Zettelmeyer, 2010).

Marketers argue that although promotion and advertising add to product costs, they add value to customers because potential buyers get informed about the features, availability, and benefits received from the brand. Also, products from reputed brands are priced high because the brands provide assurance of quality (Van Heerde, Gijsbrechts, & Pauwels, 2008). Customers can buy products from brands at lower prices and of equivalent quality. However, customers are willing to pay more for established brands because of assurance of psychological benefits and perceived quality. Products from established brands also make customers feel wealthy, attractive, and special (Feinberg, Krishna, & Zhang, 2002). Promotion and advertising are also required to capture the attention of individuals and to beat the competition. Marketers will lose mind share and heart share of individuals if they do not invest in promotional activities (Chen, 2019).

Companies invest funds in promotional activities judiciously. Now-a-days, customers are conscious about value for money and demand genuine value for the prices they pay (Nagle et al., 2011). For products of comparable quality, customers, now-a-days, prefer store brands and generics over established brands. Customers need to have assurance that they are receiving proper value. Now-a-days, it is difficult for marketers to convince individuals only by talk.

6.3. Excessive Mark-Ups

Companies are accused by critics of excessive mark-ups (Fujita, 2019). For example, in the pharmaceutical industry, a pill may cost only a few cents to manufacture. However, a customer may be charged $2 for the same pill. Critics are also worried about the pricing tactics adopted by funeral homes that take advantage of the emotions of bereaved relatives. Similarly, auto repairs and similar other services charge high from customers (Anderson & Simester, 2008).

Marketers try to convince stakeholders that they do fair business with customers. They also emphasize that they want to build customer relationships for doing repeat businesses and that most customer abuses are unintentional (Barrad & Valverde, 2020). Customers who are affected by and concerned of unethical and illegal pricing practices of marketers can refer to Better Business Bureaus and state and federal agencies. Companies claim that customers do not understand the reasons for high mark-ups. For example, pharmaceutical companies claim that high mark-ups are required to cover the costs of purchasing, promoting, and distributing existing medicines plus the high R&D costs of formulating and testing new medicines. For this reason, GlaxoSmithKline states in its communications, "Today's medicines finance tomorrow's miracles" (Green, 2006).

6.4. Increase in Prices by Companies

Prices of products are the sources of revenue for companies. So, although customers try to resist high prices, companies generate revenues through a number of approaches. Companies have started charging fees for those services which were once provided to customers for free. U.S. Airlines collected a massive $3.35 billion in baggage fees and $2.81 billion in reservation charge/cancellation fees in 2013 (Hetter, 2013). Another industry which charges its customers for almost everything is telecommunications. Telecommunications charge the customers for basic services, setup, change of services, service termination, directory assistance, regulatory assessment, number portability, and cable hookup and equipment. Telecommunications companies generate revenues from customers through such services in the order of millions of dollars. Banks generate revenues from customers who pay bills online, bounce checks, or use automated teller machines (Leondis & Plungis, 2010). Credit card companies charge for almost every service provided. Restrictions were imposed on some of their pricing practices. Credit card companies responded by adopting rate floors for variable rate cards, higher penalties for overdue payments at lower balance thresholds, and inactivity fees for unused cards (Burnsed, 2009).

Charging of extra fees for services provided has a number of implications. Since the list price remains fixed, such practices may understate the degree of price inflation (Leondis & Plungis, 2010). It becomes difficult for customers to compare competitive offerings. Critics urge companies to reduce or eliminate some or all the fees. However, many times such requests are turned down from state and local governments, which use their own practices of collecting fees, fines, and penalties to raise revenue (Hetter, 2013).

Companies defend themselves that only interested customers will be willing to pay the extra fees. So, charging extra fees is the most viable way to cover extra expenses without losing customers. Also, only selected customers avail premium services which cost more to provide. Charging extra fees is also a practice adopted by companies to discourage unprofitable customers to continue business with the companies. Companies motivate them to either modify their behavior or to discontinue services (Hetter, 2013). Companies will be able to continue charging extra fees only when customers are convinced about why they need to pay extra. It also depends on whether customers are willing to pay extra fees or willing to discontinue getting services from companies charging extra fees (Burnsed, 2009).

7. PRICING IMPLICATIONS ABOUT SOCIAL GOODS

Private goods used by consumers require more public services. For example, if consumers start buying more automobiles that means more highways, traffic control, police services, and parking services will be required. All these are public services. Selling of public goods and services results in social costs. For automobiles, some of the social costs include traffic congestion, air pollution, and gasoline shortage. It is estimated that American travelers lose, on an average, 34 hours a year in traffic jams, costing the United States more than $100 billion a year - $750 per customer. They also waste 1.9 billion gallons of fuel and emit millions of tons of greenhouse gases (Busse et al., 2010).

Critics emphasize that social costs should be borne by producers. For example, automobile manufacturers should manufacture cars with more efficient engines and better pollution-control systems. This also indicates that manufacturers will finally transfer those costs to customers in the form of higher prices. If majority of the customers cannot buy products at higher prices, then the brands will not be able to compete in the market. Customers will demand those products for which the sum of social and private costs results in competitive prices (White, 2016).

Governments of countries have the options of customers paying for the social costs. For example, many cities charge congestion tolls to reduce traffic congestion (Kendall, 2012). The Metropolitan Transportation Commission charges a $6 toll during peak commute hours versus $4 at other times. Such initiatives reduced the traffic flow during the peak hours. This also reduced the average 32-minute wait time some bridges approach, in half (Kendall, 2012).

8. DISCUSSIONS

Marketers adopt a number of pricing policies. Critics and regulatory bodies are concerned about such policies. Authorities enforce various laws and regulations to ensure that companies adopt and follow fair pricing practices. Various federal, state, and local laws have been formulated and enforced to ensure that fair pricing practices are followed by companies. Companies should also be sensitive towards the broader social implications of the pricing policies. The major public pricing policies include potentially damaging pricing practices within a given level of the channel such as price-fixing and predatory pricing. Pricing policies across channel levels include retail price maintenance, discriminatory pricing, and deceptive pricing. Pricing practices are regulated by governments and authorities appointed by governments. However, responsible companies go beyond what is required by regulations and law. The fair pricing practices followed by companies indicate fair treatment of customers. Such treatment is required to build and develop strong and lasting customer relationships.

8.1. Managerial Implications

Companies adopt a number of pricing policies to increase prices of products so that they can extract the maximum amount of revenue from customers. Companies argue that prices should be increased to reflect rising demand from customers and cost inflation. However, customers always resist high prices. So, companies must carefully manage customer perceptions with rising prices.

Companies should be sensitive enough to understand marketing's impact on individual consumer welfare and society as a whole while developing their pricing strategies. Companies adopt a number of pricing strategies like high prices, deceptive pricing, and discriminatory pricing to disadvantaged customers. Companies are criticized for adopting such pricing strategies because such actions create false wants, too much materialism, and too few social goods. Critics are also worried about the harmful effects of such actions on the competition. Companies and company managers should be sensitive towards such issues while formulating their pricing strategies.

8.2. Limitations of the Study

The discussions on the public policy issues in pricing are done in the context of the United States. So, some of the strategies and viewpoints may need to be changed or modified before those strategies can be applied to other countries. Also, the discussions are done from a qualitative perspective. Further in-depth quantitative analysis can be performed to understand the specific implications of the different strategies and regulations.

9. CONCLUSION

The study discussed the various public policy issues in pricing. Companies adopt a number of pricing policies to maximize their revenues and profits. Some of the policies are beneficial for customers while others are not. Pricing policy issues may occur both within distribution channel levels and across channel levels. Companies may sell their products below cost to get rid of their excess inventory. Predatory pricing is said to be adopted when companies sell their products below cost with the intention of driving competitors out of the market. Companies may also adopt deceptive pricing, discriminatory pricing, and dynamic pricing. Companies try to recover high costs of distribution, and high advertising and promotion costs by setting unusually high prices for their products. Companies generate higher revenues and profits by setting excessive mark-ups and from all possible avenues like charging fees for once-free product and service features. They may charge for any service which might be provided along with the main offering. All such pricing policies and practices are justified if they are legal and ethical. Although laws and regulations are enforced to ensure fair pricing, it is difficult to check whether companies are actually abiding by those laws and regulations or not. Governments and regulatory authorities are also concerned about social goods and their pricing implications. It is ensured by governments and regulatory bodies that consumers pay prices for the social goods consumed. Companies should adopt pricing policies so that both companies and customers are benefited. The policies should satisfy customers and help companies to generate revenues and profits. Companies require adopting fair pricing policies which are beneficial to customers.

9.1. Contributions of the Study

The contribution of the study lies in the fact that an in-depth and conceptual discussion of the various pricing policies and practices adopted by companies was done. Various laws and regulations related to the pricing policies are also discussed. The advantage of conducting a conceptual analysis that the different public policy issues in pricing are analyzed based on arguments. The discussions have both theoretical and practical implications. Academicians may review the different pricing policies and strategies, suggest improvements, policies, and strategies which will benefit both companies and customers. The discussions will sensitize managers about the need to be aware about the regulations regarding pricing policies and to adopt fair pricing policies and practices which will help them strengthen customer relationships while generating revenues and profits for themselves. Efforts were made to include the relevant and the latest literature related to pricing policies followed by companies and the regulations enforced by authorities to ensure fair pricing. Price of a product is one of the major parameters which decide whether a product gets sold or not. So, both academicians and practitioners require analyzing the implications of the various pricing policies adopted.

9.2. Future Research Directions

Academicians may study the different laws and regulations enforced to ensure fair pricing practices by companies. They may analyze the suitability of the laws and regulations in ensuring fair trade taking place and suggest modified laws and regulations. Practitioners and marketers may understand the various practical issues related to the pricing policies adopted. They may also analyze which pricing policies are already in place and what modifications are required in those pricing policies. They may also suggest which pricing policies should be implemented in future to serve their customers better and keep them satisfied. It also needs to be ensured that they abide by the pricing policies enforced by different authorities and regulatory bodies. Such initiatives will also help companies in formulating future pricing policies. Finally, companies should adopt only those pricing policies which keep customers satisfied, encourage competition, and help them in developing long-term customer relationships.

The discussions focused on doing qualitative and conceptual analysis of the various pricing policies and their practical implications. In future, analysts may collect primary data and conduct an empirical analysis to get better insights. The study was conducted in the context of the United States. Researchers may conduct studies in the context of other countries to get a global overview. Researchers and practicing managers may utilize the discussions to understand the implications and suggest better pricing policies, both for USA and for other countries. Researchers may adopt a data-based approach employing data-based technologies to arrive at more realistic conclusions. Data-based approach will help governments in formulating pricing policies better because governments formulate such policies based on empirical evidence. In the age of data analytics and big data, observation of large-sized price information by governments through data-based technologies could improve the strategic decision making. Application of big data and data analytics may help detecting anomalies better and could be a solution in the near future. Researchers should understand the importance of pricing policies and having proper regulations regarding pricing in place to satisfy customers, develop better customer relationships, and succeed in the long run.

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