

5.2: Price

Pricing is a major element in sustainability marketing. Issues such as price elasticity, premium pricing, and perceived value pricing will be discussed in relation to pricing for sustainability.

In the past, environmental and social costs were considered external to the production costs and had not, by general rule, been included in consideration of setting prices. However, as stakeholders and legislation increase demands on the companies to provide more sustainable solutions, companies have been driven to consider these costs within pricing policies. Sustainable companies reexamine costing methods (as discussed in Chapter 4 and Chapter 8) and begin to consider the real and actual social, economic, and environmental costs associated with products and services.

The demand for environmentally friendly products is inelastic, for the most part, meaning that a change in the price has little or no effect on the quantity that consumers are willing to buy. Consumers have generally been willing to pay a slight green premium, or higher price, for environmentally friendly products. Through premium pricing, sustainable businesses can continue to invest in innovations and development of sustainable processes. However, premium pricing does not have to be the case. In Chapter 2, there are several considerations to help the sustainable business reduce costs through increased efficiency and reduced waste. When the sustainable business is successful in reducing costs from these efficiencies, it will have more flexibility in pricing policies.

Consumers have also become very knowledgeable and aware of sustainability alternatives and issues in recent times. When considering pricing strategies, companies need to be committed to ensuring that its sustainable products perform beyond or at least as good as those products that do not make sustainability claims. Companies may want to use perceived value pricing, which is a market-based approach to pricing as opposed to pricing based on the cost to make the product. The price is set by estimating the perceptions of the consumer regarding the benefit they think they will receive from the product or service.

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