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PRICING POLICY AND PROFITABILITY LEVEL OF AN ORGANISATION

Case Study Finnair

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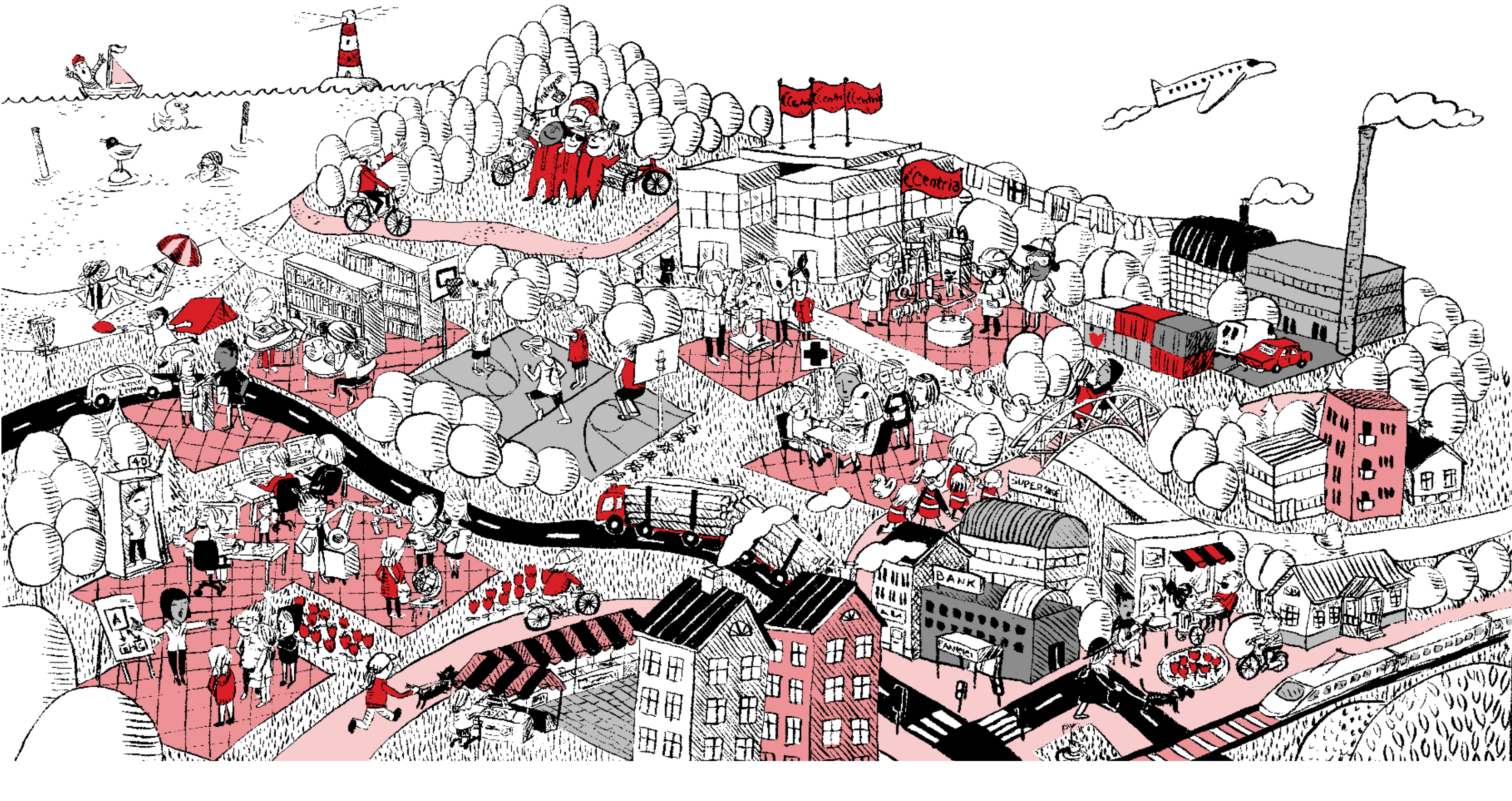

ABSTRACT

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The fastest method of increasing profit and ensuring existing companies in the market is getting the price right. Therefore, determining the pricing policy to be used is the essential task of the marketing and finance managers. Furthermore, the pricing policy of their product or service often plays a significant role in determining if an organisation achieves a profitability level. For these reasons, organisations must strive to command the optimal price for their products and services continuously with the changing market demand. Unfortunately, however, most firms or companies still suffer from making wrong pricing decisions, thereby causing the loss of a lot of money to the organisation and profit anticipated, hence experiencing wastage.

This thesis aimed to assess Finnair, the largest airline company in Finland, pricing strategies and how these strategies affect its profitability. The specific objectives were to establish the pricing strategies companies use and evaluate how these companies use pricing as a marketing mix tool to influence profitability. A theoretical framework was developed from various sources with emphasis on current literature from renowned authors in marketing.

The approach adopted for researching this thesis was qualitative research using case study methodology. By making a detailed study of the Finnair airline, only secondary data sources were used as the primary source of material for this report. The research revealed that the effectiveness of pricing policy and price planning has a significant influence on the profitability level of organisations.

Key words
Market, Pricing, Product, Profitability

ABSTRACT
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1 INTRODUCTION

The fastest method for companies to increase profit and ensure their continuous existence in the market is by getting the price right. Therefore, determining the pricing policy to be used is the essential marketing and finance department's tasks. Furthermore, the pricing policy of any organisation often plays a significant role in determining if an organisation achieves profitability. An organisation survival and profitability are more often than not relied on its pricing policies. For this reason, organisations must strive to command the optimal price for their products and services continuously with the changing market demand. However, most companies still suffer from mismanaging the pricing decision, thereby causing the loss of revenue and profit.

Setting price remains a complex decision by most companies. Deciding the best pricing strategy is very difficult because many variables come into play to ensure the price is affordable to customers and satisfies stakeholders' profit interest—the difficulties in setting price results from the sensitivity of consumers´ demands regarding the price change. A slight insignificant change at the wrong time may lead to a drastic fall in market shares and profit. The price decision adopted by any organisation determines its profitability as well as its survival. Price is, therefore, the essential element in the marketing mix of an institution. A reasonable price produces revenue and ensures profitability (Kotler & Keller 2006, 475). The price implemented must cover the variable cost in the short run, and fixed cost after the business breaks even. Therefore, price has a direct impact on many operations of the firm's activities.

Every company faces a lot of pressure and complication when setting the price of its product or commodity. This is given the fact that prices are set at different stages of the product´s life cycle. For instance, manufacturers' prices will be determined by the merchandise among other different decision-making bodies.

This thesis aims to determine the effect of pricing policy on profitability in organisations, the importance of pricing decisions, its effects on organisation profitability, and the various pricing policies and strategies organisations need to use to be profitable in the long run. Furthermore, a case study of Finnair airline is used to examine the impact change in price has on the company’s financial performance. Information for this thesis is obtained from pricing policy articles, journals, books, and research articles.

The research question for this thesis is, how are prices of goods and services supposed to be determined by organisations and the various factors to consider when setting**.** The goal of this thesis is to answer the following questions

- To determine if an organisation's pricing policy affects its profitability and efficiency.
- To establish the effectiveness and efficiency of pricing policy by organisations.
- To determine the factors that influence pricing policies and strategies in Finnair.
- To investigate if pricing policy can result in cost reduction and increase the profit performance of companies.

Over the years, there has been a disagreement between managers in charge of cost (financial and accounting managerial department) with the marketing and sales department regarding pricing policies. The accounting department insists on pricing policies covering the total marginal cost, whereas marketing and sale managers insist on pricing policies that consumers are willing to pay. This always brings out the problem of what price is supposed to be assigned to goods and services.

The invincible hand in the open market and the production cost of every product seems to be principally the determining factors of the pricing decision of a product by an organisation. However, there appears to be an interplay of different and other variables to determine and influence the price of a commodity. This can be viewed from the product's production objectives, the general situation of the economy, competitive position in the market, among others. Notwithstanding, some firms or all at times do not consider some of these factors before setting their prices.

It stands that from the budget, prices are the unwavering and consequent determination of the profit margin. However, most firms still fail to prepare a budget that will guide them on setting their prices at an optimal level to continue operations and reward management and shareholders.

The negligence and failure of companies to incorporate factors other than those presented by the forces of demand and supply in determining the price of the products turn to affect the profit margin of the companies and consequently affecting the reward given to management as motivation. Also, the failure to capture the economic realities and the competitive position in the market before determining the price of the product and other factors that influence a company's performance must have undoubtedly led to the non-rewarding of management because of lack of profitability.

Furthermore, budgeting as underscored is an essential tool used in determining cost as profit is expected. However, most firms ignore the mechanism of profit projection through the budget to determine the price. This negligence can be thought of and seems to be linked to the reasons why most firms wind up with no profit or low-profit margin necessary to keep it in operation. More so, the conflict of what price to set between the marketing and the accounting department also seems to contribute to a company's pricing decision.

In the long run, organisation pricing policies determine if the goods or service is profitable or non-profitable. In essence, low pricing or high pricing policies can be good and evil if the organisation does not research the market very well. This inbalance in the pricing decision of a company creates the preoccupation of this thesis: how does pricing policy influence the profitability level of an organisation.

This thesis will be made of seven chapters, with the first chapter giving the scope of the entire thesis, research questions, and research objective. The second chapter is made of the theoretical framework of the thesis, and the third chapter presents the research methodology, the fourth chapter covers the case organisation and its structure, chapter five discusses various pricing policies and strategies, chapter six is an analysis of the results, and the last chapter will be the conclusion and discussion of the thesis results.

2 OVERVIEW OF PRICING AND PROFITABILITY

In this chapter, will discusses the theoretical literature relevant to this thesis, elaborating on some relevant studies by other authors, different forms of pricing policy and how to establish the optimal price.

According to Kotler and Keller (2006, 437-438), continuity and survival of every company depend on the company's price and, consequently, how much it makes in terms of profitability depends also on the pricing decision. Therefore, any price decided by the company must be able to cover costs both in the short and long run at the same time producing a profit necessary to keep stakeholders interested in continuing in the company.

This responsibility to adopt a price that will be profitable, cover costs and reward solely depends on management. This is because prices are not determined through arbitrary means but through thoughtful and calculated systems that will keep the company profitable and rewarding. This, therefore, requires management to engage all the necessary factors to determine the most profitable price Kotler & Keller (2006, 437).

2.1 Background

Despite a recent surge of interest, the subject of pricing in general and value-based pricing has received little academic investigation. However, pricing has a significant impact on financial results, both in absolute terms and relative to other marketing mix instruments (Hinterhuber 2004, 765.) Warren Buffet, in an interview with the financial crisis inquiry commission in 2011, said, "The single most important decision in evaluating a business is pricing power". A profitable business is one that can raise its pricing while still retaining its customers. He further explains that a company should not have a prayer session before increasing the price by 10 per cent. He quoted "if you have to have a prayer session before raising the price by 10 per cent, then you have got a terrible business." (Wachtel 2011.)

According to a 1992 Harvard business college review article, a slight increase or decrease in price can dramatically affect profit level. The research shows that, for over 2000 companies, a 1% increase in price with the other factors of productions remaining constant resulted in an 11.1% increase in operational profit. This shows that an increase or decrease in price usually has three times the effect on profitability compared to an increase in production volume. The only problem with pricing is that the effect is vice-versa (Marn & Rosiello 1992, 85-88.)

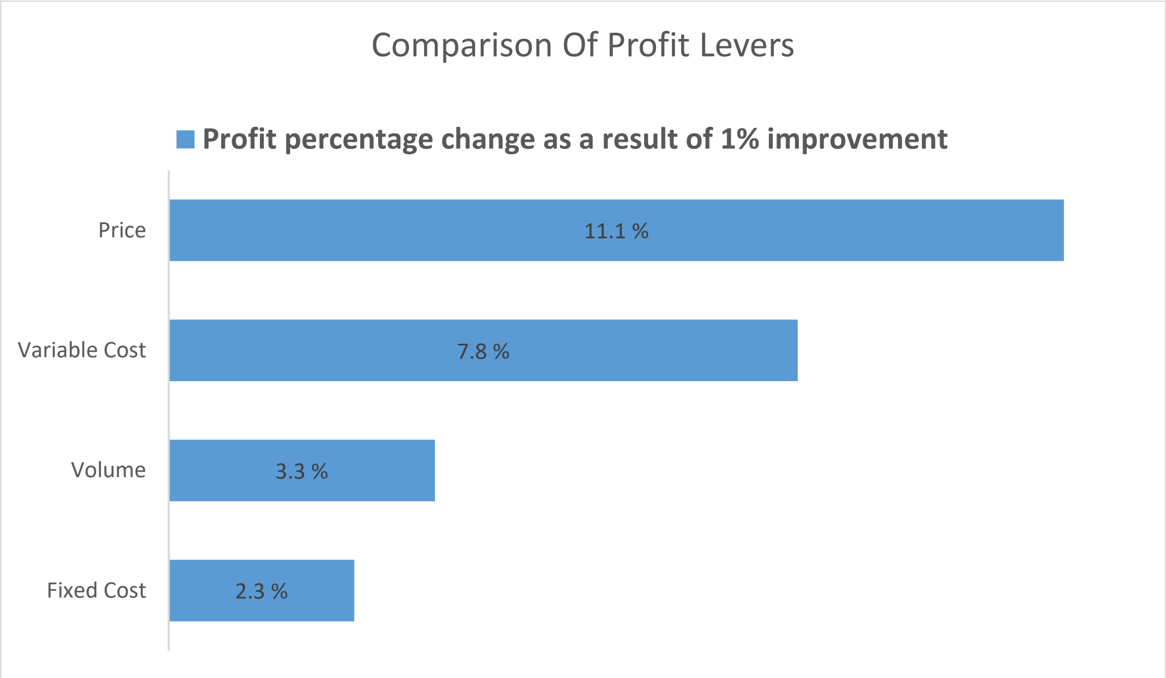

FIGURE 1. Effects of a 1% improvement in price (adapted from Marn & Rosiello 1992, 85.)

According to figure 1, Marn & Rosiello examined the payoff of a 1% increase in price compared to the same percentage increase in volume is so vast that all companies must strive to command the best possible price for their product. They carried out research based on 2463 companies and found out that a 1% increase in price ceteris paribus will increase the profit by 11.1%, whereas the exact change in volume will lead to a 3.3% increase in profit. This vast difference shows how significant price can influence companies' profitability in the long and short run.

This is simple, but a slight price difference can significantly affect profitability. Therefore, price is the most crucial element in the marketing mix that produces revenue. This goes a long way to explain why profitability and survival depend primarily on its pricing policy (Kotler & Keller 2006, 437-438.)

With operational cash flow, inventory turnover, earnings before interest taxes, depreciation amortisation (EBITDA), pricing flexibility is one of the key performance indicators of enterprises today. Therefore, every organisation, be it a profit-oriented enterprise or not, a public or private, a parastatal, a cooperative society, or not has to mindful when determining the price of a good or service.

2.1.1 Defining pricing policies and related terms

To have a clear meaning of pricing policy, there is a need to define underlying terms such as price, cost and policy. In addition, the definition of cost and profit shall also be clarified. These definitions are contained in the paragraphs below.

A policy can be defined as a set of ideas or a plan of what to do in particular situations that have been agreed to officially by a group of people, a business organisation, a government, or a political party (Cambridge Dictionary 2017). For example, in business, policy defines the guideline and scope that the organisation can carry out its activities, such as purchase procedures, sales of its products, etc.

Price refers to the amount of money charged for a product or service or the sum of all the values that customers give up gaining the benefit of having or using a product or service (Kotler & Armstrong 2010, 263). Every business operates to make a profit, which can be achieved by setting a reasonable price. Price is the backbone of the business modelling, and it is one of the 4 P's in marketing Mix. Before setting price, the business must consider the cost inquired in producing the goods/services. In a basic economic sense, cost is the measure of the alternative opportunities foregone in the choice of one good or activity over others. This fundamental cost is usually referred to as opportunity cost (Britannica 2021). They are two types of cost in business, that is variable and fixed cost. Variable cost varies according to business activities, whereas fixed cost does not change regarding business activity and will remain the same whether even when the company production is 0%.

Pricing policies refer to a set of guidelines that spell out how a company sets its price for its product and services based on costs, value, demand, and competition. (Encyclopedia.com 2019). With pricing being one of the main determinants of consumer purchasing behaviour, each business must deploy the best price policy accepted by its targeted consumers.

Profit is the money a business pulls in after accounting for all expenses. The primary goal of the majority of companies is to earn money. Therefore, a business key performance indicator is based on profitability in its various forms (Kenton 2021). Profit is calculated as total cost- total revenue. When cost is higher than revenue, the business is making a loss, and if the company suffers loss for an extended period, it might lead to bankruptcy.

Pricing policy refers to the policy by which a company determines the wholesale and retail prices for its product or services (Shivam 2020). In real life, firms want to prevent the entry of rivals and increase market share. One way to achieve this competitive advantage is to have a pricing policy based on relevant data elaborated by specialists. A systematic approach to pricing requires the decision that an individual pricing situation is generalised and codified into a policy coverage of all the major pricing problems. Pricing decision remains a patchwork of ad hoc decisions. In many otherwise well-managed firms, price policy has been dealt with on a crisis basis.

2.1.2 Setting up a pricing policy, strategy and guiding principles

It is often challenging for firms to set a pricing strategy for any of their products. A company must consider its objectives and product strategy before setting a price for a particular product. Once these are clearly stated, price setting becomes relatively easy (Liozu & Hinterhuber 2013, 597-598.)

According to Fletcher (2015), there are five easy steps to undergo when setting a successful pricing strategy. Determine your business goals. Once a business has successfully determined its goals, pricing becomes easy. Business goals here will include ensuring increased profitability, constant cash flow, more significant market share, consistent and rapid market penetration, or beating the competition.

The first step requires a firm to conduct a thorough market pricing analysis. This step ensures that your pricing strategy considers the nature of the market in which your goods or services will compete. For example, a firm with too many able competitors will compete with the price, which will be standard. Therefore, the firm must ensure that operational costs are kept at the lowest to maintain the price or even go a little bit below. Likewise, if you have a high valued differentiating goods and service, a premium pricing strategy.

Secondly, the firm must analyse its target audience. This step involves answering the question of why what and how customers will use and benefit from your product or services; the firm will need to analyse its target consumers and their needs, perceptions, purchasing power, lifestyle, and how they will use the product.

Thirdly, the firm must profile its competitive landscape. A firm should always profile its competitors and know about their pricing policies before setting theirs. A firm will have to do a compact analysis of its main competitors' pricing policy and market strategy to have a competitive edge in the market. Also, it is essential to research the availability of substitute goods and analyse their prices as well.

Fourthly, the firm can then create a pricing strategy and an execution plan**.** Assuming that the firm has gone through all the four stages above. The next step is to create a pricing strategy and execution plan where each firm will have to choose one or more of the following pricing strategies:

- penetration pricing where the price is set below the market price to penetrate deeply into the market,
- premium pricing where high prices are set for high valued goods,
- economy pricing where prices are set low with a focus on low manufacturing costs,
- price skimming where the firm sets high prices for competitors to follow, the firm then lower its cost and adopt a lower price.,
- promotional pricing where the firm gives discounts to customers over a while,
- competitive pricing where the firm sets its price according to the prices of the competitors.

After mastering how to set a pricing policy, the next challenge for most firms is making the right choice among these policies. Choosing the pricing policy depends on the company's long-run and short-run goals. At the same time, others might prefer maximising their profit; others might strive to gain leadership in the market even if it means forgoing some profit level, and others might rather forgoing profit for a period to gain market share (Kotler & Armstrong 2018, 64.)

When setting a price policy, there are several factors to take into consideration. Firstly, the market forces of demand and supply constitute one of the most important criteria to look at when setting price, The law of demand states that when the price of a good rise and everything else remains the same, the quantity of the demanded will fall and when demand increase and everything else remains the same, the price of the good rises. Therefore, even with a relatively simple measure such as merely raising or lowering a price, things do really get complicated when you oversee the consequences of that price change (Bouter 2013, 28). Therefore, before setting product prices, companies need to research and understand the relation of the force of demand and supply towards their product.

The first factor is competition. Every business has competitors, which might be direct or indirect competition, and these competitors play a vital role in setting the pricing policy. As a result, companies can either set prices independently or follow a market trend depending on the competitors' strength, impact, and market share.

The second factor to consider is purchasing costs. Every business must determine the total costs of buying and selling a particular good or service and setting the price above that cost. If not will fail in the long term. Costs set the floor for the price that the company can charge for its product. The company wants to charge a fee that covers all its costs for producing, distributing and selling the product and delivers a fair rate of return for its effort and risk (Kotler & Armstrong 2010, 670.)

The third factor is the value perceived by customers. Customers care about how much they think a good or service is worth. They do not care about the actual cost of that good or service. If the cost of your good or service goes far above the customer's perceived value, they will hardly buy. If the perceived value is much higher than your costs, they'll happily pay a price that gives you a considerable margin (Najjar 2019). Some phones are more expensive than others while having the same criteria because customers perceive superiority for using such phones. They have a greater perception of these products.

Fourthly, another factor to consider is the state of the economy. The form of an economy affects the demand for some goods and services more than others. Luxury goods, for example, will have to have low prices during an economic downturn and vice versa during an economic boom.

Another factor to consider consists of other elements of the marketing mix. The marketing mix is a set of marketing tools that a business uses to sell products or services to its target customers (Lake 2021.) Therefore, a reasonable price can only be established after other marketing mix elements have been reviewed.

Furthermore, when setting the price, companies must also consider external elements are influencing price, which is usually out of their control. These elements include inflation, recession, economic boom, interest rates, retailers' profit, consumers perception and many more.

2.2 Review of the empirical literature

Price is a critical element in any organisation, but proper attention has not yet been given to price academically despite its utmost importance. Also, marketers do not provide price with the attention it deserves. This can be seen with pricing representing less than 2% of all papers of marketing journals (Alameda 2016, 121.)

According to a report by Nyaga (2017, 74), the effective economy pricing measure is to ensure the reduction of the production cost, and he believes that it gives the company a competitive edge over its rivals. He went forth by saying that economic pricing is a strong determinant of a company's profitability, especially insurance company. Also, skimming pricing strategies has a positive impact on the profitability of firms. Furthermore, Nyaga concluded that a company that puts in place effective skimming pricing practices will help it quickly recover costs, enabling the company to have a substantial lead in the competition with both new and established products. The research outlined the fact that skimming had a positive effect on the profitability of most companies. Penetration pricing is also a strong determinant of a company's profitability. This was concluded because, under his research, the case study had put in place effective penetration pricing practices, which enabled them to secure a wide market acceptance hence a more significant customer base. The strategy helped them discourage competition in that it focused more on acceptance rather than profits.

Furthermore, studies by Achrol & Kotler (1999, 63), observed that the relationship between pricing and profitability is not fully established because different markets may react to the same product in entirely different ways. What might be considered a low price in one market may very well be regarded as a high price in another, leading to a contradictory level of demand in both markets. In general, it can be concluded that the impact on financial performance is subjective.

According to Hilton & Platt (2014, 641-650), both the market forces of demand and supply and the cost of production have significant importance on determining prices. In addition, other variables such as pricing objective, economic situation, competition level, and availability of close substitutes influence pricing decisions. Hilton & Platt further emphasised by saying that firms at times do not consider these factors which has resulted in the shutting down of many factories, downsizing of the workforce and in most of the cases winding up of firms.

Nevertheless, many experts acknowledge the different pricing strategies of cost-based pricing, competition-based pricing, and customer value-based pricing, predicts the amount of revenue a firm can generate over the long term. They further acknowledge that customers are price-sensitive, and therefore, the demand for goods and services largely depends on the perceived fairness of the price (Nafuna et al. 2019.)

While some authors were highly accurate and specific about their research, others were not. The previous thoughts explain to us the relationship between pricing policy and profitability. Though the relationship between pricing and profitability is not clear, since the market reacts to price differently, what is perceived as a high price in one market may be perceived as a low price in another. Therefore, the impact of pricing policy still holds a vital role in determining the company's profitability if the right approach is adopted.

3 Research methodology

This chapter focuses on procedures, norms, standards, and techniques used to identify, select, process, and analyse this research data. The research is focused on past research on the importance of pricing and Finnair corporation.

3.1 Research approach

Research approach is a plan and procedure that consists of the steps of broad assumptions to details, the method of data collection, analysis, and interpretation. It is based on the nature of the research problem (Chetty 2016). The research approach is divided into data collection and data analysation. Data collection is further divided into three: quantitative (explain a study by collecting numerical data that is analysed mathematically), qualitative (seeks to answer questions about how and why people behave in the way they do), and mixed methods approach, which is the combination of qualitative and quantitative research approach to answer the research question.

A combination of qualitative and quantitative approach was used in obtaining data used for this study. This method is also referred to as mixed method. This research method refers to an emergent methodology of research that advances the systematic integration, or "mixing," of quantitative and qualitative data within a single investigation or sustained program of inquiry (Creswell & Wisdom 2013, 1.)

In this type of design, either the entire population or a subset is selected, and from these individuals, data is collected to assist answer research questions of interest. Information collected about the subjects represents what is going on at one point in time.

3.2 The research philosophy and data collection

Research philosophy is a belief about how data relating to a phenomenon should be collected, analysed, and used. The term epistemology, "what is known to be true", instead of the term doxology ", what is believed to be true", encompasses the various philosophies in the research approach. The philosophy is "interpretive, humanistic, and naturalistic (Lehaney & Vinten 1994, 6.) It places significant importance on subjectivity. Research for a quantitative study has emerged from a positivist paradigm; positivist paradigm places a considerable value on "rationality, objectivity, prediction and control" (Burns & Groove 2006, 15.)

A research approach is a plan and procedure that consists of the steps of broad assumptions to details the method of data collection, analysis, and interpretation. It is based on the nature of the research problem (Chetty 2016.) The research approach is usually divided into data collection and data analysation. Data collection is further divided into three: quantitative (explain a study by collecting numerical data that is analysed mathematically), qualitative (seeks to answer questions about how and why people behave in the way they do), and mixed methods. For this research, a qualitative research approach in the form of a case study is chosen to create a deeper understanding of how a price policy can enhance an organisation's level of profitability.

Data collection is "a systematic way of gathering information, which is relevant to the research purpose or questions" (Burns & Grove 2006, 383). The data was collected using past research data on pricing policies and how it affects profitability in the long and short run. Furthermore, data was also collected from Finnair 's annual report from 2014 to 2017 to understand how a slight change in price can affect the company in the long and short run.

3.3 Ethical consideration

Ethics is defined as a moral philosophy or code of morals practiced by a person or group of people. Ethics in academic writing aims to resolve questions of academic writing by defining rules to distinguish between good and evil, right, and wrong, virtue and vice. According to Resnik (2020), ethics can be defined as a method, procedure, or perspective for deciding how to act and for analysing complex problems and issues. There are multiple reasons why it is necessary to adhere to research ethics for example,

Firstly, for the main reason that research often requires a lot of collaboration and coordination between different people, institutions, schools, and organisations, it is important for ethical rules to be set to promote collaboration, trust, accountability, and fairness when carrying out research. researchers love to see their work cited in other publications and not have their work stolen and not credited to them.

In addition, many ethical norms also help to ensure that researchers can be held accountable to the public. For example, government laws on research misconduct, conflicts of interest, human subject protections, and animal care and use are required to ensure that public-funded researchers may be held accountable to the public.

Furthermore, ethics norms foster research goals such as knowledge, truth, and error avoidance. For example, prohibitions on creating, manipulating, or misrepresenting research data, this assists in enhancing research truth while reducing errors.

Fourth, ethical research norms contribute to public support for research. People are more willing to fund a research study if they are confident in the research's quality and integrity.

It is very vital for every researcher to be aware of research ethics. research study should be conducted with fairness and justice by eliminating all potential risk. The respondents must be reminded of their rights if necessary to ensure they know and understand them. According to Brink & Wood (2001, 227), ethical issue observed during a study may include "Informed consent, right to anonymity and confidentiality, right to privacy, justice, beneficence and respect of persons".

4 FINNAIR CORPORATION

Finnair is an airline company with headquarters in Helsinki, Finland. Finnair is one of the world's oldest operating airlines. Founded over 90 years ago by Consul Gustaf Snellman, Bruno Lucander, and Fritiof Ahman under the name Aero OY with headquarter situated in Vantaa, Helsinki, at the registered address Tietotie 9, Vantaa. The airline is the biggest in Finland and undertakes both domestic and international travel in Finland (Finnair 2021e.)

The Finnish government is the company's majority shareholder, with the Prime Minister's Office controlling 55.90% of the company (Finnair 2021d.) The company has grown from a small airline to a solid and respected member of the international airline industry. In 2020, Finnair launched its new sustainability strategy and aimed to be a carbon-neutral airline at the end of 2045. In 2020, with the advent of the COVID-19 pandemic, whose effects were felt globally and especially in the airline industry, Finnair was equally affected. In 2020, the company carried 3.5 million passengers, and revenue for the year shrank to 829.2 million euros, a drop of more than 70 per cent on both measures.

Finnair, earlier known as Aero, was founded on 1 November 1923. Aero operated its flights from downtown Helsinki, more precisely from Katajanokka by the harbour. In 1924, the airline began its first commercial flight by transporting mail between Helsinki to Tallinn. Within the same year, the airline expanded its activities into the transportation of passenger’s flights between Helsinki and Stockholm in cooperation with the Swedish airline ABA (Finnair 2020d.)

Nowadays, Finnair is a network airline specialising in connecting Europe and Asia with the shorter northern route via our Helsinki hub. The geographical location of Helsinki enables the offering of fast and efficient connections between critical cities on the two continents. Founded in 1923, it is one of the oldest continuously operating airlines in the world. The company is part of the One World Alliance (Finnair 2021c.)

Sustainability is at the core of Finnair's strategy. Its long-term target is carbon neutrality. The company wants to maintain the social and economic benefits enabled by air connections while dramatically reducing the carbon footprint of air travel. Finnair's core airline activities are operated in the group's parent company, Finnair Plc. In contrast, technical services, travel services (package tours), catering services and financial business services are controlled wholly owned subsidiaries (Finnair 2019, 9.)

4.1 Executive board members

An executive board is a group of individuals who mutually oversee the activities of an organisation, which can be either a for-profit or a non-profit organisation like a business, philanthropic association, or administration organisation. The executive board is responsible for the day-to-day operations and practices necessary to achieve the management and the board of directors' overall objectives. Commonly, this includes evaluating the work done in the past period, setting new goals, acknowledging achievements, and introducing new ideas or projects for the future (Finnair 2020b.)

Finnair is headed by their CEO Topi Manner, who has been head of the corporation since 1 January 2019. He works hand in hand with the other governing bodies pursuant of the companies act and the article of association (Finnair 2020b.)

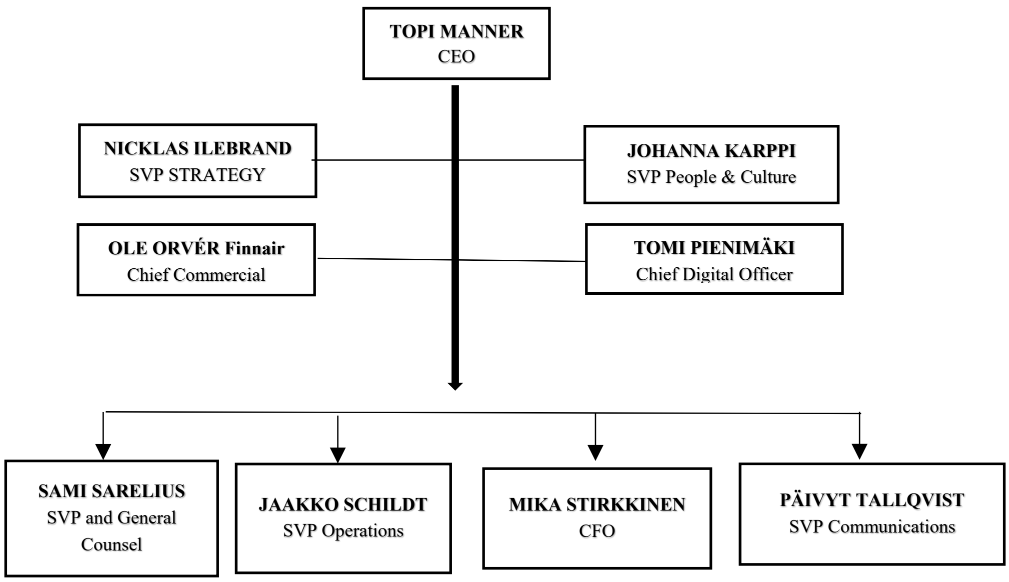

FIGURE 2 Finnair executive board members (Finnair 2020b).

Figure 2 above shows the structure and leadership role of Finnair corporation. The CEO, Topi Manner heads the executive board. The executive board also includes the senior management responsible for overseeing Finnair's day to day operations and overall activities. These executives play a critical role in the success or failure of the company. In addition, their decision making determines how the company plans to conduct business in the coming future.

4.2 Business Model

Finnair business model is built on being a "Full Service Network Carrier" (FSNC). An FSNC is an airline that focuses on providing a wide range of pre-flight and onboard services, including different service classes and connecting flights (German Aerospace Center DLR 2008). The airlines business model is based on building an extensive network connected worldwide to one or a few hubs with the leading airline airport at Vantaa, Helsinki. Being its central hub, from which flights are then connected to other destinations. The airline currently flies to 130 destinations in Europe, Asia and North America. Furthermore, the airline now offers different ticket prices at various price points to differentiate their products and air travel for all classes (Finnair 2021b.)

Finnair business model is developed explicitly on the transportation of cargo and passengers between Europe and Asia. Despite the company providing flight options to different continents, it is still heavily focused on providing the smoothest link between European and Asian passengers. Based on Finnair 2020 annual report, the airline generated 186-million-euro passenger revenue in its Asian route, resulting in 35% of its total revenue, second only to its European route, which generated 244.6 million in Europe. This was due to the Covid-19 pandemic, which severely impacted global traffic. In 2019 prior to the worldwide pandemic, Asia traffic accounted for 43% of the airline’s passenger revenue ((Finnair 2021a, 10).

4.3 Sustainable, profitable growth

In November 2019, Finnair announced a new sustainable, profitable growth strategy for 2020-2025. With the new approach, the company aims to increase and maintain its Asian market travel destinations to boost profitability. The company heavily relies on its new ultra-modern airbus A350 wide-body fleets to accomplish this strategy, which is estimated to reduce fuel consumption by up to 25%. Finnair aims to obtain 27 airbuses A350 aircraft for its wide-body fleet needed for long-haul flights. As for the short-haul network, the company also added seven more new fuel-efficient narrow-body planes. The company’s main objective for sustainable, profitable growth is to grow costeffectively, enabling the company to maintain a healthy balance sheet and cash flow while carrying out significant investments of approximately 3.5–4.0 billion euros to reduce its emissions and enable profitable growth substantially (Finnair 2020a, 4.)

4.4 Strategy implementation

Finnair is targeting sustainable, profitable growth. The company implements its strategy for the period of 2020–2025 in five focus areas, namely: Network and fleet, Operational excellence, Modern premium airline, Sustainability, as well as Culture and ways of working (Finnair 2020a, 19)
. The company's business strategy is currently heavily focused on the Asian market by targeting Asian megacities and connecting Asian passengers to European hubs and vice versa. Finnair has established an annual capacity growth in the Asian market of between 3-5%, which has been realise for the past five years, except 2020 and 2021, due to the COVID-19 pandemic (Finnair 2020a, 19.)

Furthermore, Finnair's is heavily committed to environmental responsibility. The company has identified four critical areas to focus on energy consumption, emissions, noise and biodiversity, and waste management. The most significant environmental impact by airlines globally is engine emissions and noise pollution. For that, the solution has been purchasing modern fleets. Generally, modern fleets are more fuel-efficient and produce a significant drop in noise pollution. Hence, Finnair's most effective action to solve this is to invest in ultra-modern fuel-efficient fleets continuously. In addition, the company achieve a 5.5% drop in waste production in 2019 even though passengers increased by 10% (Finnair 2020a, 141.)

Furthermore, Finnair aims to develop from being in line with peers to being among the leaders in reducing airline carbon footprint. The company is committed to reducing its carbon emission, achieving carbon-neutral growth by 2020, and cutting its emissions of flight operations by half by 2050 from the 2005 level (Finnair 2020a, 2.)

4.5 Oneworld partnership

Oneworld Alliance was founded on 21 September 1998 and when operational on 1 February 1999 by American Airlines, British Airways, Canadian Airlines, Cathay Pacific, and Qantas. Oneworld objectives to be the first-choice airline alliance for the world's frequent international travelers. Its headquarters are based in New York City and today it includes 14 member airlines, with Finnair being a member Finnair was the first new member to join the alliance on 9 December 1998 (Finnair 2021c).

Collectively, Oneworld partner airlines fly to more than 1,000 destinations in over 150 countries around the world. This means partner airlines can offer you a more comprehensive range of overseas flight options and keep your checked baggage from start to destination. The alliance today has grown to be the third biggest in the world (Oneworld 2020). Furthermore, they are flying an estimated 490 million passengers per year on 13,000 plus daily departures. The Oneworld Alliance comprises airlines working together to provide a constantly evolving, seamless travel experience and frequent flyer privileges when passengers travel with a member airline.

5 PRICING POLICIES/STRATEGIES

According to Monroe (2003, 54), price decisions are one of the most critical management choices because it affects profitability and the companies' return along with their market competitiveness. Pricing strategy is a complex activity that requires a good understanding of the company's internal structure; more simply, it can be considered all the various methods that small businesses use to price their goods and services. Below are some elaborated pricing strategies.

In the aviation industry, the disparity in pricing is a common phenomenon. Even though it might seem unfair, the aviation industry has one of any industry's most competitive pricing strategies. Since the 1970s, the aviation industry has been an early adopter of cutting-edge revenue-management (RM) technologies. In this regard, Finnair has not been an exception, and over the years, the company have continuously strived to render the best services to its customers at competitive prices over the years. The company uses different pricing strategies to cope with the constant flexibility in the industry. With Finnair pricing strategy, the price is not firmly set, and instead, the prices change based on changes in market demand, time, and customers preference.

5.1 Dynamic Pricing

According to Shartsis (2021). dynamic pricing, also called real-time pricing, surge pricing, or demand pricing, is an approach whereby business set their prices of goods and services based on the specific customer to match demand and supply and consumers preference, the changes might be in a matter of seconds, minutes, days and so on. Dynamic pricing is now a global trend used in many industries. With the continuous ease of accessibility of pricing information to customers in today's market, consumers can easily search for the best pricing options among competitors. This change has encouraged producers to set prices tailored to customer's demands.

According to Paul Krugman (2000), dynamic pricing is not entirely new but an updated version of the age-old practice of price discrimination. What is unique about it today is that current technology has made it not only widely possible but also commercially feasible (Elmaghraby & Keskinocak 2003, 1288). Dynamic pricing is perhaps the most intriguing subjects that have surprised the aviation industry over the past 20 years. However, it is anything but a new idea for the aviation industry.

Today, almost all aviation companies and eCommerce businesses practise dynamic pricing. By increasing price during high demand and lowering the cost during lower demand, airline companies can now fill more seats in their plane and reduce the possibility of grounding planes during lower demand.

To implement dynamic pricing and solve this inefficiency, AI and machine learning are critical. These technologies enable dynamic pricing algorithms to train on inputs transactions, external data and understand patterns (Shartsis 2021.) The use of AI has enabled the business to map out consumers' ways of purchase and preferences.

Finnair, as an aviation company, practises dynamic pricing since airline demand is not constant. The seats on a specific flight are fixed. At the time of departure, all empty seats are valueless. In the airline industry, marginal sale cost is meagre; thus, it is only necessary for seat prices to be dynamically set to be profitable.

5.2 Customer value-based pricing strategy

Customer value-based pricing means that the marketer cannot design a product and marketing program and then set the price (Kotler & Armstrong 2018, 309). The company's cost of production or competitor analysis does not interest them. A firm that considers this is practising value-based pricing. It is advantageous because it provides real insight into how a customer perceives its goods and services and helps the company produce quality goods and services demanded by their customers, thereby increasing customer loyalty.

This strategy is the most used pricing strategy in the aviation industry. It is objective to sort out a customer's genuine willingness to pay for a particular good or service. This is usually done by recording and analysing customer data. Statistics have shown that customers care more about the value added to a product at a particular price. The firms' cost of production or competitor analysis does not interest them. A company like Finnair practising value-based pricing is advantageous because it provides accurate data and helps the company produce higher quality goods and services, thereby increasing customer loyalty. This goes a long way to increase profitability.

5.3 Cost-plus pricing

This is the oldest and most straightforward (mostly) method of setting prices. The main idea is for a firm to develop its product, determine the cost incurred in production, fix the price based on the cost, and convince buyers of the value of the goods and/or service. it is the most common practice strategy in the world because of its view of financial sustainability since every product or service yields a fair return overall cost in theory, but in practice, it is a blueprint for mediocre financial performance (Nagle, Hogan & Zale 2016, 18.)

An article by Ihsanul (2020, 11-17) explains that in a company that uses machinery as labour in processing a product, determining the selling price can be tricky due to the large number of expenses determining factor of the selling price. The price set will have an impact on the profit either positively or negatively, but profitability is affected positively in most cases because prices are mostly set to cover all expenses related to the cost of producing the good or service

The use of CP (cost-plus) pricing is the basic nature of some, if not most, companies worldwide. It remains the most basic and effective method of setting prices despite its many drawbacks. The academic's world has pointed out that other pricing methods such as dynamic pricing, market skimming, and marginal cost pricing are a much better model. Usually, such prescriptions are based on neo-classical assumptions of complete, specific, and costless information. And of course, if a firm knows everything and can behave without cost, why would it not set prices by equating marginal revenue and marginal cost (Marshall & Jacobs 2016, 2.)

According to an article by Marshall & Jacobs (2016, 17), who studied a setting where a multi-product in a nonlinear, cost-increasing environment resulted that companies who base their pricing model using cost-plus pricing with a uniform markup can constrain its prices in ways that reduce the amount of under-pricing and its adverse profit effects.

5.4 Market Skimming Pricing

This is the act of setting prices very high when introducing a new product to the market to skim revenue layer by layer. The rationale of this strategy is to skim surplus from customers early in the product life cycle in order to exploit a monopolistic position or the low-price sensitivity of innovators

(Dean 1976, 141-153.) These are common today with the airline industry, which usually starts the prices of new routes and services very high and gradually reduce it over time as they get new customers to balance out the entry cost. Market skimming makes sense only under certain conditions. First, the product's quality and image must support its higher price, and enough buyers must want the product at that price. Second, the costs of producing a smaller volume cannot be so high that they cancel the advantage of charging more (Kotler & Armstrong 2018, 332–333.)

The goal of market skimming is for the firm sets a high price for its product initially. Subsequently, as time goes on, the firm lowers the price. As customers' demands are met, the firm reduces its prices to attract more consumers, reasons why the strategy is sometimes referred to as riding down the demand curve. The main objective is to secure consumer surplus in the early stages of the product life cycle, then gain a monopolistic position in the industry as a whole (Spann, Fischer & Tellis 2015, 235–236.)

Zhang & Chiang (2020, 18) highlight that a price benchmark shaped by consumers based on their perception of past prices is known as a reference price. Behavioural decision research suggests that consumers are likely to be backwards looking. Therefore, they make purchase decisions based not only on the current price but also on the reference price. Furthermore, the reference price effect, which significantly impacts consumer demand, exists for both consumables and durables.

While it is optimal for a myopic seller, the price skimming strategy is always optimal. For a forward-looking seller, either the price skimming strategy or the penetration strategy is optimal, contingent on the potential market and consumers reference price effects. Both pricing strategies have a significant impact on profitability. In the case of our case study, Finnair is very flexible when it comes to pricing. They practice price skimming again and again to increase demand which leads to more profits (Spann, Fischer & Tellis 2015, 235-236.)

An example of price skimming can be observed when Finnair launch its new Airbus-fleet with a flatbed seat on its business class services on their long-haul flights to Asian routes with extra services such as priority check-in, boarding and security, access to our business lounges, and exclusive Business Class meals and drinks. When the service was first introduced, the price was set high, and over time the price has reduced to the increase in demand of the service, which has led to a fall in price. In a nutshell, the price skimming strategy increases the customer base of Finnair, thereby increasing the demand for its products. This goes a long way to increase profits because costs are kept manageable (Bailey 2019. 40)

5.5 Competitive pricing

This is the process of selecting strategic price points to best take advantage of a product or service based on the market relative to the competition. Competitive pricing is generally used once a price for a product or service has reached a level of equilibrium—most manufacturing companies' carry out competitive pricing.

Companies in the aviation industry have become increasingly very competitive over the past years; the growth of new airlines and airports around the world have brought air travel to the highest demand the world has ever seen. Today more planes are flying in the sky than ever before. Airlines have recognised that pricing techniques such as Expected Marginal Seat Revenue (EMSR) produce the most effective means of optimising fares in real-time. This method is beneficial not only on a specific route but also across the entire airline network since it considers revenue-generating opportunities. These growths in demand have encouraged new airlines to enter the aviation industry and thus drive up the competition, resulting in falling prices in the industry. The change in the industry has led to an increase in Finnair's revenue from 1,656 million in 2002 to 2,587.8 million in 2019. (Finnair 2019a, 9.)

In an article by Gupta, Ivanov & Choi (2021, 30-32), an analytical game-theoretical study was conducted to examine the effects of supply capacity disruption timing on pricing decisions for substitute products in a two supplier, one retailer chain setting. It was examined whether the timing of disruption may significantly impact the significant pricing and profits. This was done by reviewing two games, Nash and Stackelberg. The optimal pricing strategy and order levels with both disruption timing and product substitution were derived. It was discovered that the order quantity with a disrupted supplier depends on price leadership, and it tends to increase when the non-disrupted supplier is the leader. Moreover, the equilibrium market retail pricing is higher under higher levels of disruptions for the Nash game than the Stackelberg game. It was also uncovered that the non-disrupted supplier can always charge the highest wholesale price if a disorder occurs before orders are received.

Wang, Zhang, Zhu & Li (2020, 642-653), highlighted that consumers can easily compare the prices of the online and offline channels before making purchase decisions nowadays, which might arouse the reference price effect among consumers. A question was raised on how online and offline retailers should set their prices considering the reference price effect. The reference price effect was incorporated into a hoteling model to formulate the online and offline price competition to answer the question. It was discovered that when the reference price effect is low, the offline retailer monopolises the market and vice versa. However, when the outcome is moderate, the retailers co-exist.

Interestingly, a first-mover disadvantage and a second-mover advantage exist in market share, but they do not necessarily exist in terms of profit. However, both retailers can be better off by negotiating the game sequence. Again, it was found out that each retailer prefers its price to be regarded as the reference price.

5.6 Importance of pricing policy

The importance of setting price right cannot be understated. Pricing remains the most important tool influencing profitability be it a profit-making company or a non-profit company. There are many benefits of a suitable pricing policy. In other words, having a reasonable pricing policy for a firm yield lots of merits. These advantages are outlined in the paragraphs below.

When prices are set too high, many people will reject to purchase goods and services that are overpriced. Not only will the company lose market share to competitors, but many potential consumers will dismiss it as unnecessary at the current market price. With few products sold, market leverage is lost, which will lead to potential and current investors losing faith in the firm's ability to deliver financial returns. Although it may already be too late, the company will ultimately find itself reducing its pricing in an attempt to recover market attention.

The company would have missed out on a significant chance to profit in proportion to the value it provides to customers. While companies sometimes set low pricing in order to achieve volume, they frequently realize that the volume is just not there. Furthermore, entering a market with a very cheap price would create false pricing expectations for the product category. leading to future potential negative reaction in demand because of price increase. In the worst-case situation, expenses are not covered, and the company goes bankrupt (Smith 2011, 3-4.)

Price is the determinant of profitability. The price of a product determines the revenue generated by companies from the sales of good and services and thus influences the company's profitability in the long run and short run. Therefore, the company's price is the basis for generating profits.

Price is a competitive weapon. Whether a company is running high, medium, or low-priced merchandise, any company will have to decide whether its prices will be higher, like or beneath its competitors. This is a fundamental policy issue that affects the entire marketing planning process.

Price regulates demand. Any other component does not equal the power of price to produce results in the marketplace in the marketing mix. It is the greatest and the strongest 'P's of the four 'Ps' of the mix. A marketing manager can regulate product demand through this powerful instrument. Price increases or decreases the demand for a product. To increase the demand, reduce the price, and increase the price to reduce the demand.

Price is an essential element in an economy. In an economic system, price is the mechanism used in allocating resources and reflecting the degrees of both risk and competition. The price policy is a weapon to realise the goals of a planned economy where resources can be allocated as per planned priorities. Price is the prime mover wheels of the economy, namely, production, consumption, distribution, and exchange. It affects living standards, regulates business profits, and allocates resources for optimum output and distribution. Thus, it acts as a powerful agent of sustained economic development.

6 DATA PRESENTATION AND DISCUSSION OF RESULTS

This chapter examines data collected from Finnair financial reports and annual reports from 2014 to 2017. It explores the chances of revenue for the four economic periods because of the continuously changing market demand of the airline's services. In addition, the chapter seeks to examine the degree of change that can impact the company operational profit because of a 1% increase in price.

According to Marn & Rosiello (1992, 84-88), in their article Managing price, gaining profit, they uncovered how a gradual change in price could significantly change profitability, showing the importance pricing has on every business organization. They studied 2,463 companies in Compustat aggregate. The result showed that if they expanded their price by 1% and demand stayed constant, on average, each company profit would increase by 11% and vice versa.

In table 1 below, shows simplified method of this hypothesis.

TABLE 1. Result of a 1% change in price

AVERAGE GLOBAL COMPANY			
	BEFORE INCREASE	**1% INCREASE**	**PERCENTAGE CHANGE**
NET SALE	1000	1010	1%
TOTAL COST	900	900	0%
PROFIT	100	110	11%

Based on table 1 above, it is noticeable that a company that increases in price by 1% will lead to an exponential growth in profit by 11%, with everything being the same. This is a significant change in yield that all companies must seek to attain, To support this analysis, below is an edit on Finnair operating income available from their annual report from 2014 to 2017 to denote how much a 1% change in profit will increase and decrease their operating profit for 2014, 2015, 2016 and 2017, respectively. Furthermore, I examine the percentage change of profitability of the Finnair for 2014, 2015, 2016 and 2017, respectively, to explore the company's growth rate annually.

TABLE 2. Result of a 1% increase in prince on Finnair financial statement of 2014-2017

Years	2014	2015	2016	2017
Net revenue	2,284.5	2,254	2,316.8	2,568.4
Net sales growth	−36.5	23.7	55.2	170.4
Change in Net revenue (%)	-4.8	-1.3%	2.8%	10.9%
Operating profit	-36.5	23.7	116.2	224.8
Employees	4,461	4,537	4,642	5,918
Equity ratio percentage	27.7	35.5	33.9	35.2
Net revenue after 1% increase in price	**3.87**	**0.3**	**2.78**	**10.86**

Table 2 above shows that Finnair change in net revenue after a 1% increase in revenue did not exponentially grow, as suggested by Marn & Rosiello (1992, 85-88.). Nevertheless, it is worth noting the substantial change noticeable in the company's revenue. The reason for the low percentage change in income can be attributed to the high competition in the industry. Despite the 1% increase in prices not automatically resulting in an 11% increase in profitability, it should be conceded that the 1% increase is just a simplified version of examining profitability through a price increase.

Notwithstanding, it very well may be said that pricing has significantly affected the profitability of an organisation. By no means should other individual market influencing factors such as competition be underestimated; internal changes can be utilized to improve production cost and Improve profitability. Increasing profitability to 11% with a 1% increase in price is a reasonable target when these internal changes are made to reduce the cost to mitigate the importance of other external factors. Airlines have adopted dynamic pricing to respond to the industry's external forces influencing profitability. Pricing in this model varies depending on available capacity, time, and method of purchase. The airline pricing model is a competitive environment in which every euro is crucial for airlines.

7 CONCLUSIONS AND DISCUSSION

This thesis aimed to examine the effect of pricing on the overall profitability of companies' performance. With that in mind, Finnair Airlines was chosen to analyse its pricing policy to understand the relationship between pricing and profitability better. A theoretical study was employed to understand how pricing influences Finnair airline profitability and its different pricing policies to achieve its objectives.

To understand the effect of pricing on profitability, the following research question was adopted:

1. To determine if an organization's pricing policy affects its profitability and efficiency.
2. To establish the effectiveness and efficiency of pricing policy by organizations.
3. To determine the factors that influence pricing policies and strategies in various organizations.
4. To investigate if pricing policy can result in cost reduction and increase the profit performance of companies.

The first specific objective was to determine if an organization's pricing policy affected its profitability and efficiency. The research adopted standards that each company considers before adopting any pricing policy. Recently, companies are adopting hybrid pricing policies made up of more than one pricing policy to better tackle customer's individual needs. Based on the analysis of Finnair financial record, it is evident that pricing policies significantly affect profitability. Ceteris paribus, the company's revenue increase when pricing is significantly low, as can be seen with Finnair "Stockmann's Hullut Päivät sale", where the company's sales are always significantly high due to the lower prices.

The second objective was to assess the effectiveness and efficiency of pricing policy by organizations. Studies by Marn & Rosiello (1992, 85-88), suggest that pricing has two to four times more power to influence profitability than other business mechanisms. For companies to have a successful product, they need a successful pricing policy. Thus, pricing remains the most valuable P in the marketing mix. With companies running out of ways to increase profitability and increase performance, many companies turn to price policies to make that leap which will set them apart from their competitors. Research on some public traded companies revealed that a significant number of multi-national companies pricing policy improvement success.

From Finnair's data, it is evident effectiveness and efficiency of pricing policies have a significant impact on the company's success. The airline is constantly searching for better approaches to understand the companies need and tailor services based on those results. In any industry as competitive as the aviation industry, every business decision counts, and pricing policy differentiates airlines from success stories or failures.

Furthermore, the research also aimed to determine the factors that influence pricing policies and strategies in Finnair. The pricing objectives in any company are to transfer rights from the producer to the buyer in exchange for compensation. Before setting a price, the company must choose the strategy according to the target market and companies' objective. To answer this research question, an extensive analysis was carried out on Finnair's current and past pricing policies and strategies over the years. By understanding why Finnair abandoned their previous pricing policy and strategy, we can fully understand why and how Finnair chooses a specific pricing policy and strategy over the other.

The fourth objective was to investigate if pricing policy can result in increased profit performance of companies. Numerous studies have shown the importance pricing has on companies profit margin and thus performance in the long and short run. To answer if pricing policy can result in increased profit, an analysis was done on Finnair's revenue from 2014 to 2017, and the research revealed that with everything being equal, a mare increase of price by 1% showed more than a significant increase in the company’s profit. Thus, it can be concluded that pricing policy does have a substantial impact on companies' profitability.

In conclusion, the broad objective of this research was to find out how pricing policy affects profitability in companies. Based on the overall objective, several specific research questions were developed. To achieve this broad objective, the study used a theoretical research approach. The results showed how pricing could be used to influence Finnair level of profitability; the study indicated that poor pricing policy or an absence of it would drastically affect the profitability of a business, and thus it is inherent for them to operate a set of variables that enable them to be consistent in their pricing models and strategy in other to better capitalise on the changing market demand.

From the findings and conclusion, the study recommends an in-depth quantitative research approach to be carried out on pricing strategies and how to apply these strategies to different market conditions. Furthermore, to better the effects of alternate aspects of pricing asides from those discussed like market share, market competition, amongst others, there is a need for a study to be carried out to determine their relationship with market conditions. This will help companies to increase their profits.

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