UNIT II

A price is the quantity of payment or compensation given by one party to another in return for one unit of goods or services. A price is influenced by both production costs and demand for the product. A price may be determined by a monopolist or may be imposed on the firm by market conditions.

Price management is the most effective way to manage the balance between financial risk and revenue. It is managing product pricing, being able to identify upsell or cross opportunities, and preventing margin erosion with ease.

Pricing is the method of determining the value a producer will get in the exchange of goods and services. Simply, pricing method is used to set the price of producer's offerings relevant to both the producer and the customer.The price of similar product/service in the market

TYPES OF PRICING METHODS

cost-based pricing can be defined as a pricing method in which a certain percentage of the total cost of production is added to the cost of the product to determine its selling price. Cost-based pricing can be of two types, namely, cost-plus pricing and markup pricing.

Price Determination: 6 Factors Affecting Price Determination of...

- Product Cost: The most important factor affecting the price of a product is its cost. ...
- The Utility and Demand: Usually, consumers demand more units of a product when its price is low and vice versa. ...
- Extent of Competition in the Market: ...
- Government and Legal Regulations: ...
- Pricing Objectives: ...
- Marketing Methods Used:

COST BASED PRICING

Cost Based Pricing Model

$$\text{Selling price} = \frac{\text{Cost price}}{(1 - \text{Gross margin \%})}$$

Cost based pricing is one of the pricing methods of determining the selling price of a product by the company, wherein the price of a product is determined by adding a profit element (percentage) in addition to the cost of making the product.

Cost-based pricing involves calculating the total costs it takes to make your product, then adding a percentage markup to determine the final price.

A Cost-Based Pricing Example

Suppose that a company sells a product for RS.100, and that RS.100 includes all the costs that go into making and marketing the product. The company may then add a percentage on top of that RS100. as the "plus" part of cost-plus pricing. That portion of the price is the company's profit.

MARKUP PRICING

Markup is the difference between a product's selling price and cost as a percentage of the cost. For example, if a product sells for RS.125 and costs RS,100, the additional price increase is (RS.125 – RS.100) / RS.100) x 100 = 25%

The Mark-up pricing is the method of adding a certain percentage of a markup to the cost of the product to determine the selling price.

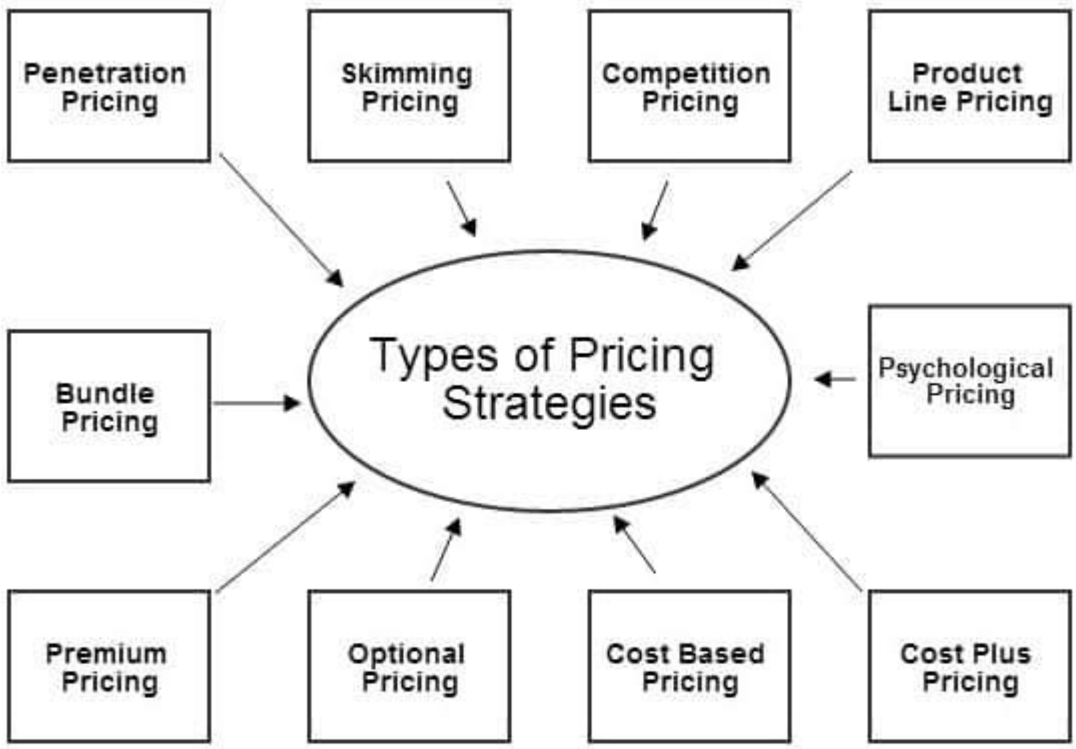
Markup pricing or cost-plus pricing is a pricing strategy where the price of a product or service is calculated by adding together the cost of the products and a percentage of it as a markup. The percentage or markup is decided by the company usually fixed at the required rate of return.

Markup Percentage Formula

$$\text{Markup Percentage} = \frac{\text{Selling Price Per Unit} - \text{Cost Price Per Unit}}{\text{Cost Price Per Unit}} \times 100$$

$$\text{Markup Percentage} = \frac{\text{Revenue Per Unit} - \text{COGS Per Unit}}{\text{COGS Per Unit}} \times 100$$


PRICING STRATEGY
Price says a lot more about your brand than just the cost. Price is how you position yourself in the marketplace. Price is the value of the product to the consumer.
01
Determine minimum price you're willing to sell your product for.
02
Determine the maximum price.
03
Determine 5 exact prices within the minimum and maximum price range.
04
Use Google Consumer Surveys to test 5 prices for your product.
05
Input results from Google Consumer Serverys into Pricing Spreadsheet.
06
Arrive at the optimized price for value.



Penetration pricing is a marketing strategy used by businesses to attract customers to a new product or service by offering a lower price during its initial offering. The lower price helps a new product or service penetrate the market and attract customers away from competitors. Market penetration pricing relies on the strategy of using low prices initially to make a wide number of customers aware of a new product.

Market penetration pricing is a pricing strategy that sets a low initial price for a product. The goal is to quickly attract new customers based on the low cost. The strategy is most effective for increasing market share and sales volume while discouraging competition.

Price skimming is a product pricing strategy by which a firm charges the highest initial price that customers will pay and then lowers it over time. As the demand of the first customers is satisfied and competition enters the market, the firm lowers the price to attract another, more price-sensitive segment of the population. The skimming strategy gets its name from "skimming" successive layers of cream, or customer segments, as prices are lowered over time.

Skimming price is mostly used for technological products where the product demand is not consistent. The typical product which is launched with a skimming price strategy is unique to the market, has customers who are ready to pay a premium for the product, and is far ahead from the competition.

Competitive pricing is the process of selecting strategic price points to best take advantage of a product or service based market relative to competition. This pricing method is used more often by businesses selling similar products since services can vary from business to business, while the attributes of a product remain similar. This type of pricing strategy is generally used once a price for a product or service has reached a level of equilibrium, which occurs when a product has been on the market for a long time and there are many substitutes for the product.

Competitive pricing consists of setting the price at the same level as one’s competitors. This method relies on the idea that competitors have already thoroughly worked on their pricing. In any market, many firms sell the same or very similar products, and according to classical economics, the price for these products should, in theory, already be at equilibrium (or at least at a local equilibrium).

Therefore, by setting the same price as its competitors, a newly-launched firm can avoid the trial and error costs of the price-setting process. However, every company is different and so are its costs. Considering this, the main limit of the competitive pricing method is that it fails to account for the differences in costs (production, purchasing, sales force, etc.) of individual companies. As a result, this pricing method can potentially be inefficient and lead to reduced profits.

Product line pricing involves the separation of goods and services into cost categories in order to create various perceived quality levels in the minds of consumers.

The goal of product line pricing is to maximize profits by positioning new products with the highest number of features or with the most cutting-edge individual features at the highest price point.

CAPTIVE PRICING

The idea behind captive pricing is that a company will have a basic product that they sell at a low price or given away for free. However, in order to receive the full benefit of the item they received, they have to buy additional products. The company might lose money on the base product, but they make a fairly good profit on the additional products. Captive pricing works best when there are no other products of similar quality available in the same price range.