-Modules-

PRICING

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The price of a product or service is the money or other goods or services exchanged for the ownership or use of the product or service. Although the common term is price, other terms may be used, such as rent, offering, contribution, tuition and so forth.

Price represents the exchange value of a good or service.

Cost Plus Pricing

It means setting the price of one unit of a product equal to the units total cost plus the desired profit on the unit. eg. A contractor figures that the labour and material required to build and sell 10 houses will cost Rs. 7,50,000 and that other expenses (office rent, depreciation on equipment, wages etc.) will equal Rs. 1,50,000. On this total cost of 9, 00,000 the contractor desires a profit of 10 percent of cost. The cost plus the profit amount is 9, 90,000, so each of the 10 houses is priced at Rs. 99,000.

Incremental Cost Pricing

The incremental cost method of pricing uses only the variable costs of direct labour and materials to determine the price. The technique emphasizes the incremental costs of producing additional units. Overhead is not directly considered in the calculation.

- P = (DL + DM) M
- DL = Direct cost of labour
- DM = Direct cost of material
- M = the desired markup percentage

Multiple Product Pricing

- Almost all the firms have more than one product in their line of production.
- Even the most specialized firms produce a commodity in multiple models, styles and size, each so much differentiated from the other that each model or size of the product may be considered a different products e.g. the various models of television, refrigerators etc produced by the same company may be treated as different product for at least pricing purpose.
- The various models are so differentiated that consumers view them as different products.
- Hence each model or product has different average revenue (AR) and Marginal Revenue curves and that one product of the firm concepts against the other product.
- The pricing under this condition is known as multi-product pricing or product line pricing. In multi-product pricing, each product has a separate demand curve. But, since all of them are produced under one organization by interchangeable production facilities, they have only one inseparable marginal cost curve. That is, while revenue curves, AR and MR, are separate for each product, cost curves AC and MC are inseparable.

Product Line Pricing

- The process used by retailers of separating goods into cost categories in order to create various quality levels in the minds of consumers. Effective product line pricing by a business will usually involve putting sufficient price gaps between categories to inform prospective buyers of quality differentials. Also called price lining.

- Product line pricing is a pricing strategy that uses one product with various class distinctions. An example would be a car model that has various model types that change with performance and quality. This pricing process is evaluated through consumer value perception, production costs of upgrades, and other cost and demand factors.

Discussion