PRICING

What do you mean by the word price?

PRICE:-

price is the money charged for a product or service.

(or)

price is the quantity of payment or compensation given by one party to another in returns for goods or services.

what is pricing?

It is a method adopted by a firm to set its selling price.

(or)

It is the process of determining what a company will received in exchange for its product or service.

PRICING OBJECTIVES

- To maximize profits
- To increase sales
- To increase the market price
- To satisfy customers
- To meet competition
- To generate internal resources to finance expansion and growth
- To maximize the value of the firm for different stake holders

PRICING METHODS

- Cost-based pricing
- Competition based pricing
- Demand-based pricing
- Strategy based pricing
- Internet pricing models

Cost-Based pricing:-

In this mainly there are two types, they are:

1) cost plus pricing

2) marginal cost pricing

cost plus pricing:-

This is also called as full cost or markup pricing . In this method the price is fixed to cover costs(material , labor , overheads etc) and add a predetermined percentage of profit to total cost.

Ex: Retail Shops , Department stores.

marginal cost pricing:-

This is also known as incremental cost pricing . The price is fixed on the basis of additional variable cost associated with an additional output.

COMPETITION BASED PRICING:-

This was divided into two types

1) Sealed bid pricing

2) Going rate pricing

Sealed bid pricing:-

It is one where buyers or sellers quote their prices in a sealed cover . The buyers who quotes the highest or the seller who quotes the lowest price is awarded the contract.

Going rate pricing:-

It refers to pricing the products and services as per the prevailing price in the market . Normally , the market leaders keep announcing the prevailing prices at a given point of time based on demand and supply positions .

Ex : Steel industry , prices of iron .

DEMAND-BASED PRICING:-

Differential pricing:-

It refers to where the seller has the ability to offer the products and services at different prices to the different profiles of the customers .

Perceived value pricing:-

It refers to fixing the price on the basis of a buyer's perception of the value of the product . This involves more understanding the needs and psychology of the customers.

STRATEGY BASED PRICING:-

There are four types of pricing in this , they are

1) Skimming pricing
2) Penetration pricing
3) Peak load pricing
4) Limit pricing

Skimming pricing:-

skimming price is the method where the price of a commodity is fixed at very high levels initially.

Penetration pricing:-

In this method the price of a product is very less so that the company can either enter in to the market and increase its market share . This method will be more appropriate in the industry where the cost fall with an increase in output .

PEAK LOAD PRICING:-

This is used by the firms when demand is expected to be at peak . This policy was in such a way that they try to cover up their losses in off-peak time by changing prices .

Limit pricing:-

The limit price is the price that the entrant would face upon entering as long as the incumbent firm did not decrease output. The limit price is often lower than the average cost of production or just low enough to make entering not profitable.

Or

- A **limit price** (or **limit pricing**) is a **price**, or **pricing** strategy, where products are sold by a supplier at a **price** lower than the average cost of production or at a **price** low enough to make it unprofitable for other players to enter the market.

INTERNET PRICING MODELS:-

There are two models in this . They are

1. Flat rate pricing.
2. Non – flat rate pricing.

FLAT RATE PRICING:-

In this the internet user has to pay some amount for a specific time period . Later there was no need of paying any amount for usage . Initially this worked efficiently but with a significant increase in internet usage it was not possible .

NON – FLAT RATE PRICING:-

This was divided into five sub categories

1. Usage sensitive pricing .
2. Transaction based pricing .
3. Priority pricing .
4. Precedence model .
5. Smart market mechanism model .

<u>USAGE SENSITIVE PRICING</u>:-

In this the user pays the fee in two parts i.e.,

1. The first part fee is paid for connection.
2. The second part fee is paid for using the bits sent or received.

   In this the pricing is done on the basis of the number of minutes of connection. The cost involved in implementing this strategy is very high .

<u>Transaction based pricing</u>:-

   This is a type of usage sensitive pricing . In this also the fee is paid in two parts but pricing is done on transaction but not on usage .

PRIORITY PRICING:-

In this model user selects the service quality and he pays for that accordingly . In this strategy, the sending or receiving packets can be prioritized by the users. It also helps internet providers to impose money on the extent customer could pay.

Precedence model:-

This model helps in protecting the current users and environment by creating a process for restricting new applications. On the basis of the precedence numbers, network priority is given to the packets. The authority who assigns the priority to the packets plays a major role. This needs continuous development by changing the products and applications.

SMART MARKET MECHANISM MODEL:-

In this the price of sending a packet changes from minute to minute based on the extent of network congestion . All the packets has a bid area in its header. During congestion , each user will state a bid price on each packet and the user who states the maximum price will be given the first priority.