

**Dr.SNS RAJALAKSHMI COLLEGE OF ARTS AND SCIENCE**  
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Coimbatore- 49

**DEPARTMENT OF COMMERCE WITH**  
**INFORMATION TECHNOLOGY**

**MANAGERIAL ECONOMICS**  
**Methods of Pricing**

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# The Three Pillars of Pricing



## Cost-Based

Setting prices based on the costs of production plus a fair rate of return. Focuses on internal financials.



## Competition-Based

Setting prices based on competitors' strategies, costs, prices, and market offerings.



## Value-Based

Setting prices based on the buyer's perceptions of value rather than on the seller's cost.

# Cost-Plus Pricing

## The Traditional Approach

The simplest pricing method. The firm calculates the cost of producing the product and adds a standard markup percentage.

- ✓ **Formula:**  $\text{Unit Cost} + (\text{Markup \%} \times \text{Unit Cost}) = \text{Price}$ .
- ✓ **Pros:** Simple to calculate; ensures costs are covered.
- ✓ **Cons:** Ignores demand and competitor prices; may not maximize profit.



1 year	2 year	3 year	4 year	5 year	6 year
Em	Em	Em	Em	Em	Em
6,573	2	157	6,732	3,340	1,866
9,768	582	701	11,051	11,615	6,292
6,271	1,037	943	8,251	7,274	5,024
23,522	938	557	25,017	27,091	24,638
26,603	8,446	8,838	43,887	40,687	30,867
1,275	542	950	2,767	2,645	2,481
26,767	6,559	5,970	39,296	32,899	26,448
19,542	2,055	49,287	70,884	65,286	57,535
11,537	3,783	12,602	27,922	26,323	26,459
3,175	4,410	6,633	14,218	13,909	13,044
1,308	104	85	1,497	1,250	
136,341	28,458	86,723	251,522	232,319	194,654
64,558	2,450	2,234	69,242	52,234	48,183
200,899	30,908	88,957	320,764	284,553	242,837
38,706	20,481	32,979	92,166	90,606	74,021
27,832	10,266	19,798	8,896	46,951	34,551
66,538	30,747	52,777	101,062	136,557	108,582
267,437	61,655	141,734	466,124	421,110	351,411
customers - gross			(4,110)	(3,884)	(4,166)
customers - net			466,124	417,226	347,245
45,644	24,480	45,116	115,240	748	101,220

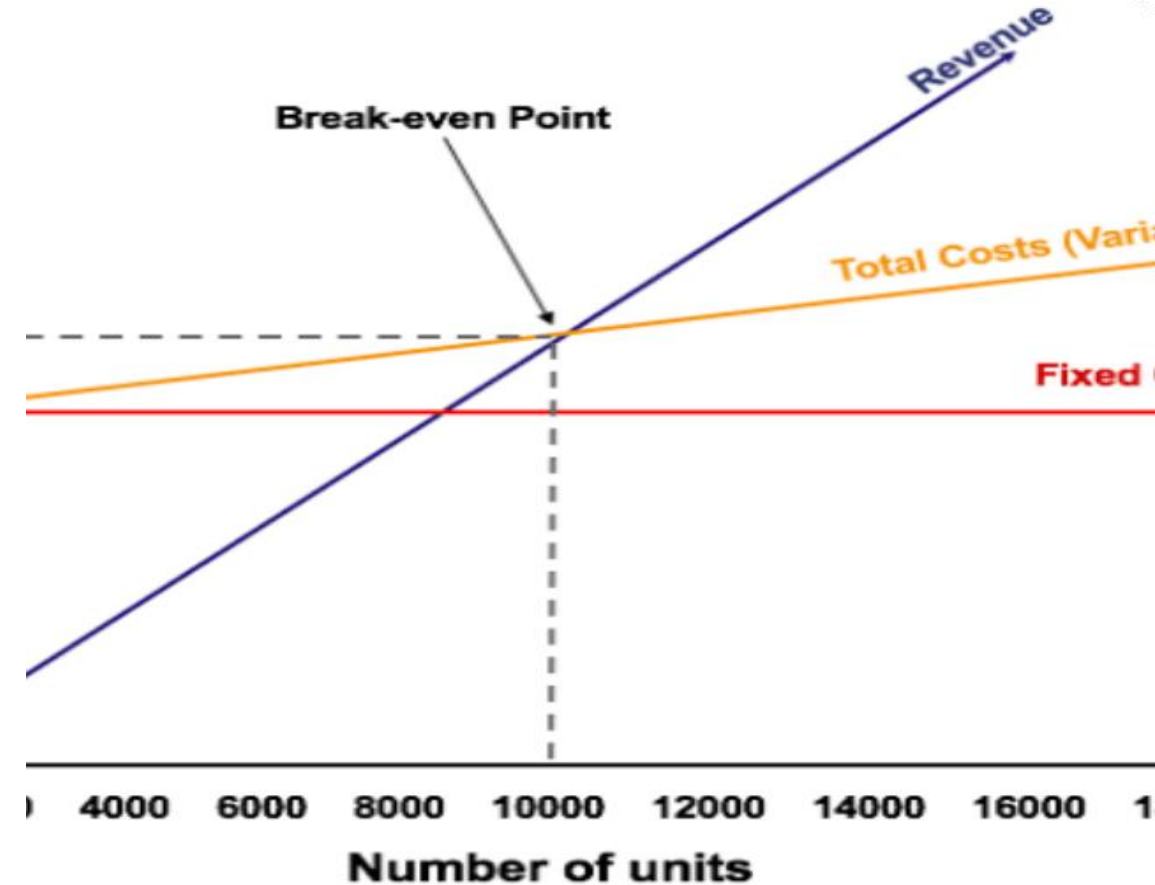
# Break-Even Analysis

## Target Return Pricing

A variation of cost-based pricing where the firm determines the price at which it will break even or make the target return on investment (ROI).

The Break-Even Point is where **Total Revenue = Total Costs**.

This method helps companies understand the minimum sales volume required to avoid losses at a given price point.



# Competition-Based Pricing

## Going-Rate Pricing

The firm bases its price largely on competitors' prices, with less attention paid to its own costs or to demand.

**Price Leadership:** Common in oligopolies where one dominant firm sets the price and others follow.

**Price Wars:** A risk of this strategy where firms continuously lower prices to undercut each other, eroding industry profits.



# Value-Based Pricing



## Customer Perception is Key

Value-based pricing uses the buyers' perceptions of value as the key to pricing.

Unlike cost-based pricing, price is considered **before** the marketing program is set.

**Good-Value Pricing:** Offering just the right combination of quality and good service at a fair price.

**Value-Added Pricing:** Attaching value-added features to differentiate offers and charge higher prices.

# Price Skimming

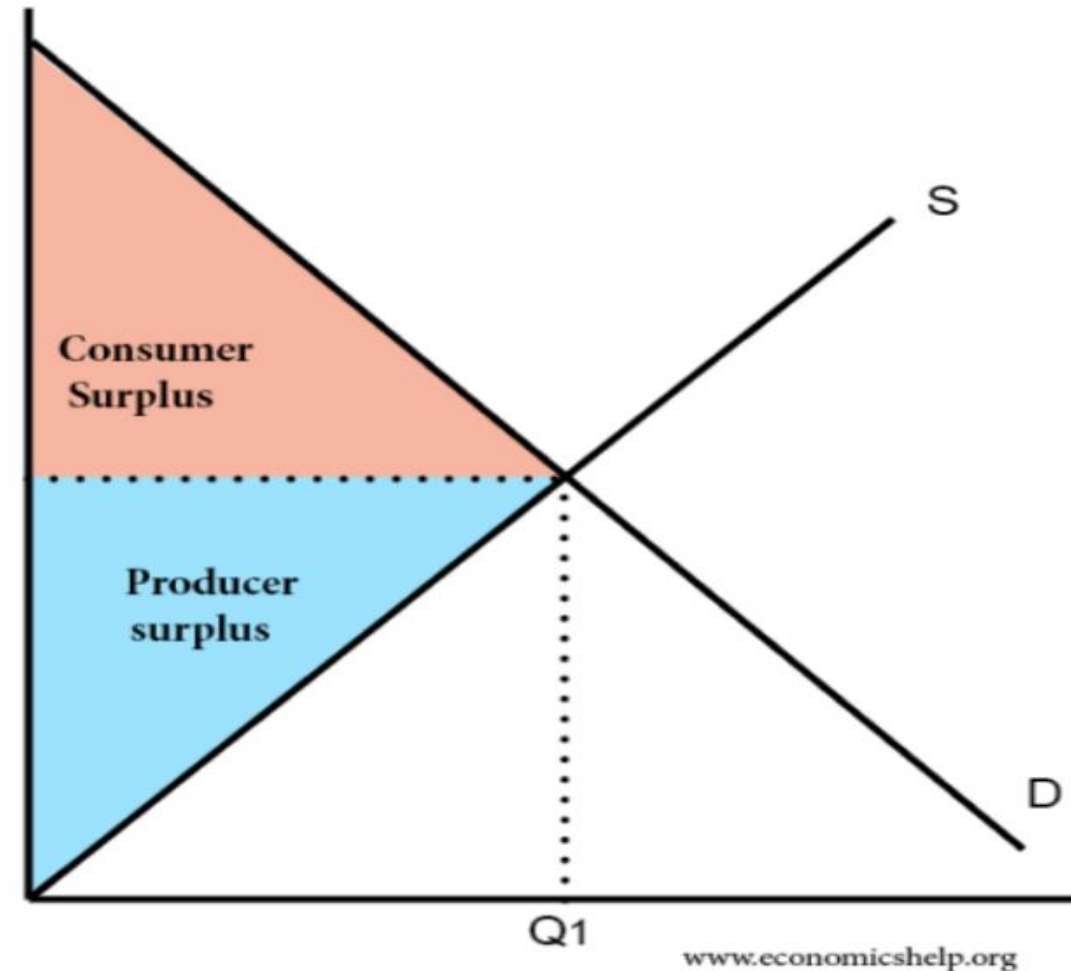
## Market-Skimming Pricing

Setting a high price for a new product to skim maximum revenues layer by layer from the segments willing to pay the high price.

### Conditions:

- Product quality and image must support the higher price.
- Competitors should not be able to enter the market easily.

Common in the technology sector (e.g., new iPhone launches).

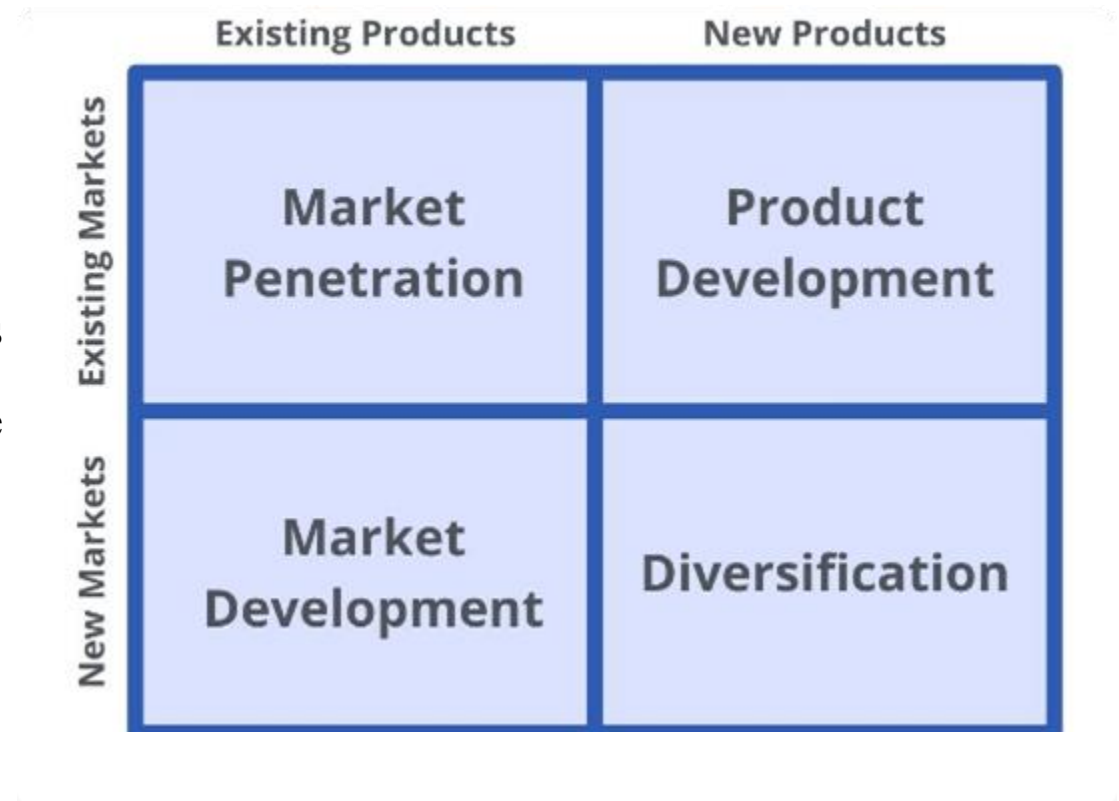


# Penetration Pricing

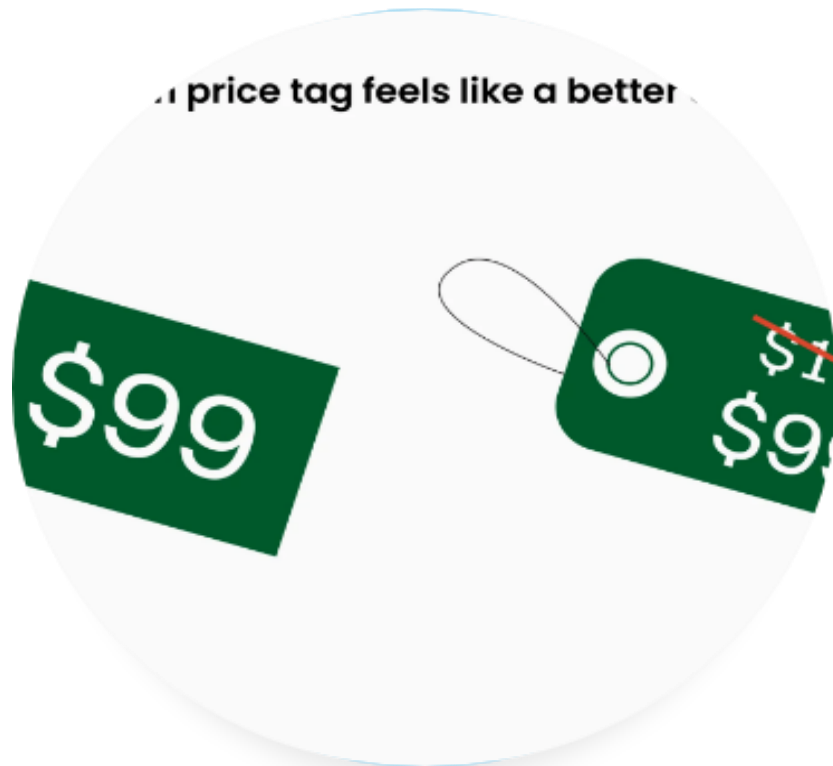
Setting a low price for a new product in order to attract a large number of buyers and a large market share.

**Goal:** Rapid adoption and diffusion.

**Strategy:** The high sales volume results in falling costs (economies of scale), allowing the company to cut its price even further or maintain low prices to discourage competition.



# Psychological Pricing



Pricing that considers the psychology of prices and not simply the economics.

**Charm Pricing:** Prices ending in 9 (e.g., \$9.99) are perceived as significantly lower than the round number (\$10.00).

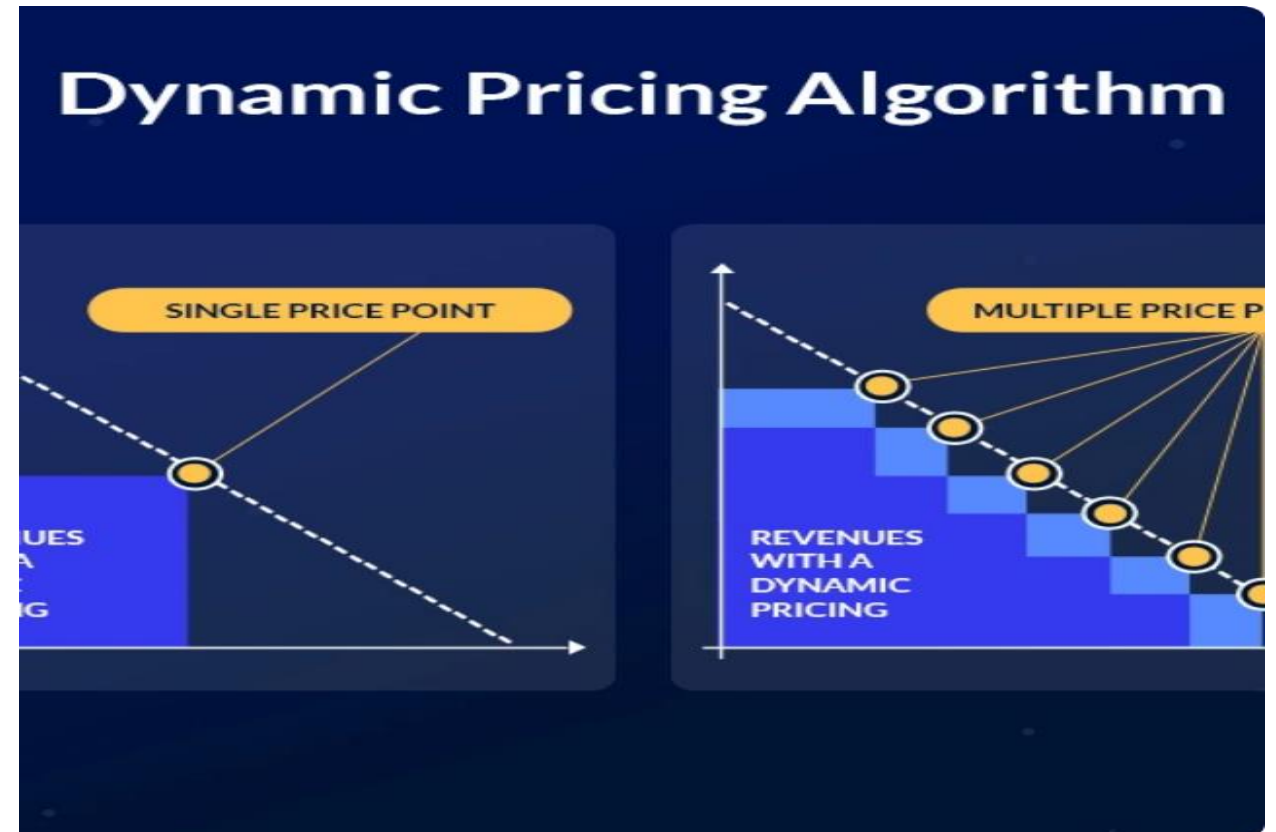
**Reference Prices:** Prices that buyers carry in their minds and refer to when they look at a given product.

# Dynamic Pricing

Adjusting prices continually to meet the characteristics and needs of individual customers and situations.

**Drivers:** Big Data, Algorithms, and AI.

**Examples:** Airline tickets, Uber "Surge" pricing, and Amazon's fluctuating product prices based on demand and inventory levels.



# Product Bundling

Combining several products and offering the bundle at a reduced price.

**Strategy:** Promotes the sales of products consumers might not otherwise buy, but the combined price must be low enough to get them to buy the bundle.

**Examples:** Fast food "Value Meals", Software suites (Office 365), Cable TV and Internet packages.

