Pricing Methods:

Cost-plus Pricing

It is the simplest pricing method. The firm calculates the cost of producing the good and adds on a percentage (profit) to that price to give the selling price.

Limit Pricing

A limit price is a price set by a monopolist to discourage economic entry into a market. The limit price is often lower than the average cost of production.

Penetration Pricing

Setting the price lower than what it is offered by other competitors in order to attract customers and gain market share. The price can be raised later once this market share is gained.

Price Discrimination

Price discrimination is setting a different price for the same product in different segments to the market. For example, this can be for different classes of buyers, such as ages, or for different opening times.

Psychological Pricing

In this pricing designed to have a positive psychological impact on the customers. For example, selling goods on profit at ₹ 4.95 or ₹ 4.99, rather than ₹ 5.00.

Dynamic Pricing

A flexible pricing mechanism made possible by advances in information technology and this strategy is mostly employed by internet-based companies.

Price Leadership

In oligopolistic business market usually, the dominant competitor among several leads the way in determining prices, and the others soon follow.

Target Pricing

Target pricing is a pricing method whereby the selling price of a product is calculated to produce a particular rate of return on investment for a specific volume of production.

Companies with high capital investment and public utilities like gas and electrical companies use this strategy.

Absorption Pricing

It is a method of pricing which recovers all costs. The price of the goods or services includes the variable cost of each item plus a proportionate amount of the fixed costs and is a form of cost-plus pricing.

High-low Pricing

High-Low pricing is a method of pricing where the goods or services offered by the organization are regularly priced higher than competitors, but through promotions, advertisements, and coupons, lower prices are offered on key items.

Marginal Cost Pricing

This pricing method is a practice of setting the price of products and goods to be equal to the additional cost of producing an extra unit of output.

Suppose, the average cost of producing a good is ₹ 80, but the price of good offered in the market is ₹ 75 which is lower than the average cost of the good. This type of pricing is limit pricing and it discourages competitors entry into the market.

Market Skimming Pricing:

Skimming is adopted where a new product is launched and the seller has little information on the acceptable price in the market. The seller, therefore, starts by setting a high price on the launch of the product and then, over a period of time, lowers the price to meet the varying price elasticities of demand.This enables gradual expansion in capacity by the seller. This practice is followed in the consumer durables market.

The seller chooses to start by setting at a high price to avoid the risk of losing on customers who are willing to pay a high price.

Penetration Pricing:

Penetration pricing is a strategy employed by businesses introducing new goods or services into the marketplace. With this policy, the initial price of the good or service is set relatively low in hopes of 'penetrating' into the marketplace quickly and securing significant market share.A penetration policy is even more attractive if selling larger quantities results in lower costs because of economies of scale. Penetration pricing may be wise if the firm expects strong competition very soon after introduction. A low penetration price may be called a 'stay out' price. It discourages competitors from entering the market. Once the product has secured a desired market share, its producers can then review business conditions and decide whether to gradually increase the price. Penetration pricing involves the setting of lower, rather than higher prices in order to achieve a large, if not dominant, market share.This strategy is most often used in businesses wishing to enter a new market or build on a relatively small market share.This will only be possible where demand for the product is believed to be highly elastic, i.e., demand is price-sensitive and either new buyers will be attracted or existing buyers will buy more of the product as a result of a low price.

A successful penetration pricing strategy may lead to large sales volumes/market shares and therefore lower costs per unit. The effects of economies of both scale and experience lead to lower production costs, which justify the use of penetration pricing strategies to gain market share. Penetration strategies are often used by businesses that need to use up spare resources (e.g., factory capacity).

Bundling Pricing:

It is a pricing practice when two or more products are sold as bundle. Also, the constituent products of the bundle are not sold individually .Price bundling is a strategy whereby a seller bundles together many different goods/items being sold and offers the entire bundle at a single price.

There are two forms of price bundling—pure bundling, where the seller does not offer buyers the option of buying the items separately, and mixed bundling, where the seller offers the items separately at higher individual prices. Mixed bundling is usually preferable to pure bundling, both because there are fewer legal regulations forbidding it, and because the reference price effect makes it appear even more attractive to buyers.

Peak Load Pricing:

It is a pricing practice where price varies with time of the day. When demand for a commodity or service varies at different periods of time, it has been generally suggested that higher price of a commodity or service be charged for the peak period when demand is greater and lower price be charged for off-peak period when demand is lower. This dual pricing, that is higher price for peak period and lower price for off-peak period is known as peak-load pricing.

Various examples of peak load pricing can be given. In India charges for trunk or STD calls during day time which is the peak period is higher and charges for the off-peak period from 9 P.M. to 6 A.M. are lower. In many countries, electric companies are permitted to charge higher rates during the day time which is the peak period for the use of electricity and lower rates for the night which is off-peak period for the use of electricity. Similarly, airlines often follow peak-load pricing; in off season they often lower their rates as compared to the peak periods of travel.

Examples of Pricing Strategies

Give an example each of psychological pricing, penetration pricing, cost-plus pricing, and limit pricing.

Ans.

1. Selling goods for ₹ 999, rather than ₹ 1000 is psychological pricing.
2. Selling goods at price ₹ 45 than what its competitors are offering ₹ 50 or ₹ 55 in the market. This pricing strategy is penetration pricing which increases market share.
3. A produces a good and cost of producing such good is ₹ 100. It then adds 20% to the cost of goods (100 + 20% = 120) and sells the good in the market at ₹ 120. This is cost-plus pricing.
4. Suppose, the average cost of producing a good is ₹ 80, but the price of good offered in the market is ₹ 75 which is lower than the average cost of the good. This type of pricing is limit pricing and it discourages competitors entry into the market.