INSTITUTE OF LAW, JIWAJI UNIVERSITY, GWALIOR

COURSE - B.COM. LL.B. FIVE YEAR

SEMESTER – VI

SUBJECT - INTERNATIONAL MARKETING

UNIT - 3 – TOPIC – PRICING METHODS

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PRICING METHODS

(1) **Cost-based Pricing:** The emphasis in cost-based pricing methods is on the organization's production and marketing costs. Analysis of these costs leads to an attempt to set a price that generates a sufficient profit. Several approaches under this method are:

(a) **Mark-up:** The most elementary pricing method is to add a standard mark-up to the product's cost. Construction companies submit job bids by estimating the total project cost and adding a standard mark-up for profit. The mark-ups vary depending on the nature of products and markets. Usually, the higher the value of the product the larger the mark-up and vice-versa.

(b) Target Profit Pricing/ Rate of return pricing: In Target Profit Pricing, the firm determines the price that would yield its target rate of return on investment (ROI). This method is used by public utilities, which need to make a fair return on their investment.

(2) Demand-based Pricing: Demand-based pricing looks outwards from the production line and focuses on customers and their responsiveness to different price levels. Demand-based pricing indicates that when demand is strong, the price goes up, and when it is weak, the price goes down. This can be seen in some service industries where demand fluctuates depending on time.

(3) Psychological Pricing: Psychological pricing is very much a customer-based pricing method, relying as it does on the consumer's emotive responses, subjective assessments and feelings towards specific purchases. It is particularly applicable to products with a higher involvement focus i.e. those that appeal more to psychological than to practical motives for purchase.

(4) Geographical Pricing: It helps the company in deciding how to price its products to different customers in different locations and countries. Geographical pricing tries to answer the following two important questions:

- Should the company risk losing the business of more distant customers by charging them higher prices to cover the higher transportation and shipping costs?

- Or should the company charge all customers the same prices regardless of location?

Five basic geographical strategies may answer these questions.

(a) Free on board (FOB) pricing – In this pricing strategy, goods are placed free on board a carrier and the customer pays the freight from the factory to the destination. This means factory price for all customers is same but the total price varies according to the transportation cost. Naturally, the customers situated near

to the factory have to pay less and distant customers have to pay more because of the higher transportation cost.

(b) Uniform delivered pricing – It is the opposite of FOB pricing. Here, the company charges the same price plus freight to all customers, regardless of their location. The freight charge is set at average freight cost. The advantage of this method is that it is easy to administer and it lets the firm advertise its price nationally.

(c) Zone pricing – It falls between FOB and uniform delivered pricing. The company sets up two or more zones. All customers

(d) Basing point pricing – In this pricing method, the seller selects a given city as a 'basing point' and charges all customers the freight cost from that city to the customer location, regardless of the city from which the goods are actually shipped. Some companies set up multiple basing points to create more flexibility. They quote freight charges from the basing point city nearest to the customer.

(e) Freight absorption pricing – The seller who is anxious to do business with a certain customer or geographical area might use freight absorption pricing. Using this strategy, the seller absorbs all or part of the actual freight charges in order to get the desired business. This pricing is useful for market penetration and to hold on to increasingly competitive markets.

(5) Competition-based Pricing: There are two aspects of competition that influence an organization's pricing, structure of the market and the product's perceived value in the market. In other words, the more differentiated an organization's product is from the competition, the more autonomy the organization has in ricing it, because buyers come to value its unique benefits. Three policy methods are available to the firm under this method:

(a) Premium Pricing: It means pricing above the level adopted by competitors.

(b) Discount Pricing: It means pricing below the level adopted by competitors.

(c) Parity Pricing/ going rate pricing: It means matching competitors’ pricing.

(6) Product-Line Oriented Pricing: When a firm manufactures large variety of products that can be grouped into a few homogeneous product lines, a special possibility in pricing arises. As the products in a given product line are related to each other, sales of one influence the sales of others and also have interrelated costs of manufacturing and distribution.

(7) Loss leader pricing: Supermarkets and department stores often drop the price on well-known brands to stimulate additional store traffic. This is called loss leader pricing. Manufacturers of loss-leader brands typically object because this practice can dilute the brand image and bring complaints from retailers.

(8) Transfer Pricing: It is the pricing of goods and services in the intra corporate context. It is the pricing to members of the same corporate family. Increasingly, products are being assembled from materials and parts brought in from several different countries. When these materials and parts are secured from affiliates in different countries, transfer pricing has to be used.

THANK YOU