

Pricing Methods

Price

The amount of money charged for a product or service, or the sum of the values that customers exchange for the benefits of having or using the product or service.

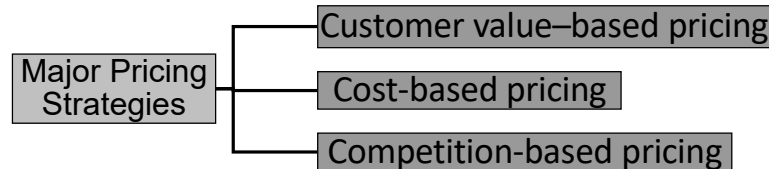
Price is the only element in the marketing mix that produces revenue having direct impact on firm's bottom line. All other marketing mix elements represent costs.

A key strategic tool for creating and capturing customer value.

An important competitive asset

Major Pricing Strategies

The price the company charges will fall somewhere between one that is too low to produce a profit and one that is too high to produce any demand.



Kotler & Armstrong (2021), Principles of Marketing, Chapter 10, P297

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Pricing Strategies

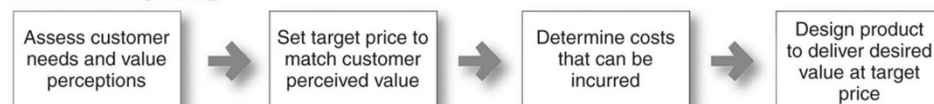
Cost-based pricing: Setting prices based on the costs of producing, distributing, and selling the product plus a fair rate of return for effort and risk.

Customer value-based pricing: Setting price based on buyers' perceptions of value rather than on the seller's cost.

Cost-based pricing



Value-based pricing



Kotler & Armstrong (2021), Principles of Marketing, Chapter 10, P298

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Cost-based Pricing

Setting prices based on the costs of producing, distributing, and selling the product plus a fair rate of return for effort and risk when
 $\text{Total cost} = \text{fixed cost} + \text{variable cost}$.

- Fixed costs (overhead) : Costs that do not vary with production or sales level (Rent, Electricity, Interest, Salaries).
- Variable costs: Costs that vary directly with the level of production.

Break even analysis-

Fixed Cost	= ₹ 200000	If Quantity sold is-
Variable cost	= ₹ 5	> 20000 : PROFIT
Selling Price	= ₹ 15	< 20000 : LOSS
Contribution Margin	= ₹ 15 - ₹ 5 = ₹ 10	
Break Even quantity	= 200000/10 = 20000	

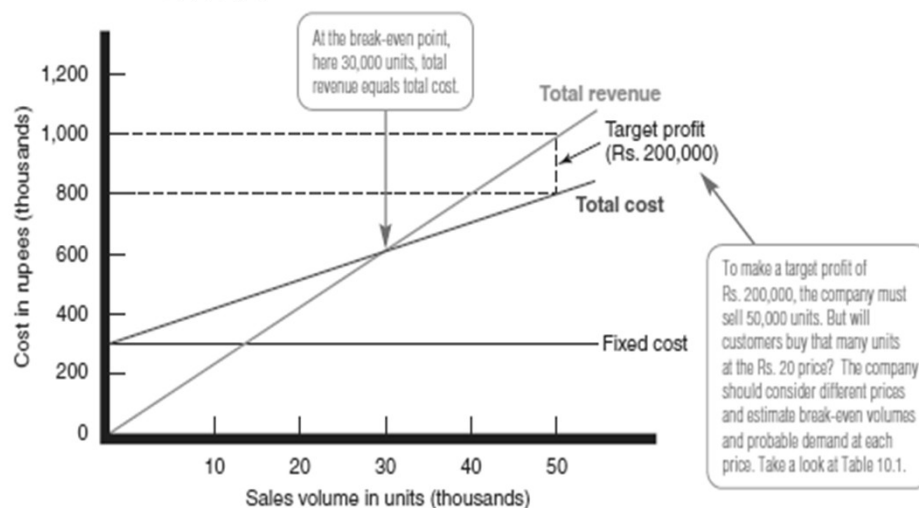
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Break even analysis



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Competition-Based Pricing

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

- Consumers will base their judgments of a product's value on the prices that competitors charge for similar products.
- Marketers set prices according to relative value in relation with competitors' offerings.
- If the company facing number of smaller competitors charging high prices relative to the value they deliver; it might charge lower prices to drive weaker competitors from the market.

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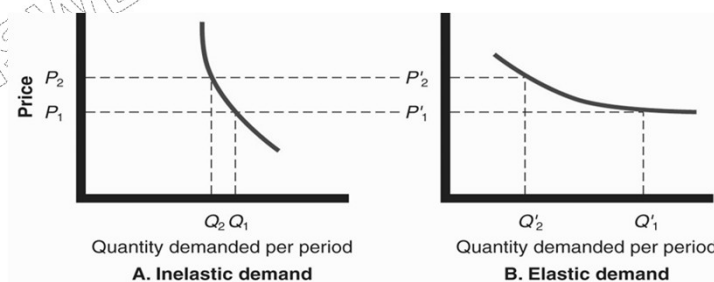
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Price Setting-Factors

Price elasticity of demand : Response of demand to change in price

Inelastic demand : Demand hardly changes for small change in price

Elastic demand : Demand changes greatly for a small change in price



Normally, demand is inversely proportional to price

Higher price = lower demand

For prestige / luxury goods, higher price may lead to higher demand - consumers perceive higher prices as higher quality

$$\text{Price elasticity of demand} = \frac{\% \text{ change in quantity demand}}{\% \text{ change in price}}$$

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Price Setting-Factors

- **Break-Even Analysis:** Break-even pricing is the price at which total costs are equal to total revenue and there is no profit.
- **Target Profit Pricing:** Target profit pricing is the price at which the firm will break even or make the profit it's seeking
- **Target costing:** Pricing that starts with an ideal selling price and then targets costs that will ensure that the price is met.

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Price Change

Price change is a strategic maneuver where a firm proactively or reactively adjusts its baseline pricing to respond to cost fluctuations, capacity utilization, demand shifts, or competitive threats.

1. **Price Cuts :** Firms typically reduce prices to utilize excess manufacturing capacity, halt a decline in market share, or aggressively dominate a market through a cost-leadership strategy. Example of Market Domination: Reliance Jio initially offering data for free, then at rock-bottom rates. This aggressive penetration pricing forced competitors (Airtel, Vodafone) into a brutal price war, allowing Jio to capture dominant market share.
2. **Price Increases:** Usually triggered by increase in cost (rising raw material or logistics costs) or over-demand (when a firm cannot fulfill all orders and must ration supply). Example: usually triggered by cost inflation (rising raw material or logistics costs) or over-demand (when a firm cannot fulfil all orders and must ration supply). Example: Parle systematically reduced the grammage of the biscuit pack over the years. By reducing the weight, while maintaining the price, marketer effectively increased its per-unit profit margin without altering the consumer's out-of-pocket expenditure.

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Dynamic Pricing

Dynamic pricing (surge pricing, or demand-based pricing) is a pricing strategy where selling prices adjust dynamically over time based on real-time market data, inventory availability, and consumer price elasticity.

Shifts a firm away from cost-plus or static price-point strategies towards price discrimination.

Objective: Capture maximum consumer surplus and optimize total revenue across fixed, perishable capacity or fluctuating supply-demand conditions

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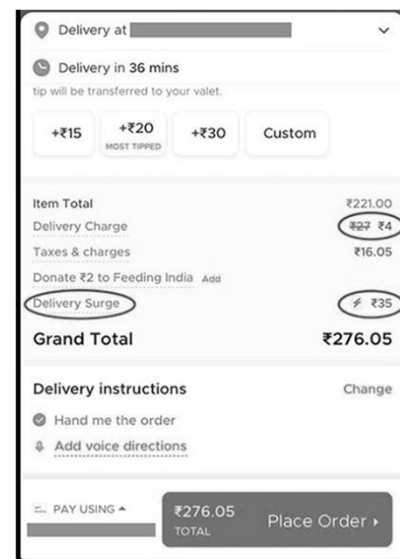
Dynamic Pricing - Applications

Aviation: IndiGo Airlines - operating in price-sensitive, low-cost carrier (LCC) market, uses Expected Marginal Seat Revenue (EMSR) models to segment leisure and corporate travelers.

Railways: Indian Railways (IRCTC) implemented dynamic pricing across premium train segments.

Food Delivery Platforms: Zomato & Swiggy.

Ride-Hailing (Ola / Uber) : Urban mobility platforms leverage automated, real-time spatial pricing engines.



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Dynamic pricing by Amazon.in

Amazon.in's dynamic pricing is a high-frequency, competitive repricing engine.

Amazon's core retail pricing strategy relies on automated scraping and matching. The algorithm constantly monitors external competitors in the Indian market (Flipkart, Myntra, Reliance Digital, Croma).

If Flipkart drops the price of a Samsung smartphone during its "Big Billion Days" sale, Amazon's algorithm instantly matches or undercuts that price for its "Great Indian Festival."

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Pricing of Service

1. Differential / Flexible Pricing

2. Discount Pricing

3. Diversionary Pricing

4. Guaranteed Pricing

5. High Price Maintenance Pricing

6. Loss Leader Pricing

7. Offset Pricing

- To reduce 'Perishability'
- Handle "Fluctuation of demand"
- Customers' ability to pay differential
- Price time differential
- Place differential

Low price for basic service to attract customers. Additional services are available but at extra charge

Payment after result

High price associated with quality of service

Low price for basic service followed by high price for additional consumption

Initial low price (may be lesser than cost) to attract customers with the hope that they will be tempted to buy profitable service in future. Risk: Not able to increase price.

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