## **Meaning of Pricing:**

Pricing is a process of fixing the value that a manufacturer will receive in the exchange of services and goods. Pricing method is exercised to adjust the cost of the producer’s offerings suitable to both the manufacturer and the customer. The pricing depends on the company’s average prices, and the buyer’s perceived value of an item, as compared to the perceived value of competitors product.

Every businessperson starts a business with a motive and intention of earning profits. This ambition can be acquired by the pricing method of a firm. While fixing the cost of a product and services the following point should be considered:

* The identity of the goods and services
* The cost of similar goods and services in the market
* The target audience for whom the goods and services are produces
* The total cost of production (raw material, labour cost, machinery cost, transit, inventory cost etc).
* External elements like government rules and regulations, policies, economy, etc.,

## **Objectives of Pricing:**

* **Survival-** The objective of pricing for any company is to fix a price that is reasonable for the consumers and also for the producer to survive in the market. Every company is in danger of getting ruled out from the market because of rigorous competition, change in customer’s preferences and taste. Therefore, while determining the cost of a product all the variables and fixed cost should be taken into consideration. Once the survival phase is over the company can strive for extra profits.
* **Expansion of current profits-**Most of the company tries to enlarge their profit margin by evaluating the demand and supply of services and goods in the market. So the pricing is fixed according to the product’s demand and the substitute for that product. If the demand is high, the price will also be high.
* **Ruling the market-** Firm’s impose low figure for the goods and services to get hold of large market size. The technique helps to increase the sale by increasing the demand and leading to low production cost.
* **A market for an innovative idea-**Here, the company charge a high price for their product and services that are highly innovative and use cutting-edge technology. The price is high because of high production cost. Mobile phone, electronic gadgets are a few examples.

## **What is Pricing Method?**

Pricing method is a technique that a company apply to evaluate the cost of their products. This process is the most challenging challenge encountered by a company, as the price should match the current market structure and also compliment the expenses of a company and gain profits. Also, it has to take the competitor’s product pricing into consideration so, choosing the correct pricing method is essential.

## **Types of Pricing Method:**

The pricing method is divided into two parts:

* **Cost Oriented Pricing Method**– It is the base for evaluating the price of the finished goods, and most of the company apply this method to calculate the cost of the product. This method is divided further into the following ways.
  + **Cost-Plus Pricing-** In this pricing, the manufacturer calculates the cost of production sustained and includes a fixed percentage (also known as mark up) to obtain the selling price. The mark up of profit is evaluated on the total cost (fixed and variable cost).
  + **Markup Pricing-**Here, the fixed number or a percentage of the total cost of a product is added to the product’s end price to get the selling price of a product.
  + **Target-Returning Pricing-** The company or a firm fix the cost of the product to achieve the Rate of Return on Investment.
* **Market-Oriented Pricing Method-** Under this category, the is determined on the base of market research
  + **Perceived-Value Pricing-** In this method, the producer establish the cost taking into consideration the customer’s approach towards the goods and services, including other elements such as product quality, advertisement, promotion, distribution, etc. that impacts the customer’s point of view.
  + **Value pricing-** Here, the company produces a product that is high in quality but low in price.
  + **Going-Rate Pricing-** In this method, the company reviews the competitor’s rate as a foundation in deciding the rate of their product. Usually, the cost of the product will be more or less the same as the competitors.
  + **Auction Type Pricing-** With more usage of internet, this contemporary pricing method is blooming day by day. Many online platforms like OLX, Quickr, eBay, etc. use online sites to buy and sell the product to the customer.
  + **Differential Pricing-** This method is applied when the pricing has to be different for different groups or customers. Here, the pricing might differ according to the region, area, product, time etc.

**Price Adjustment strategies**

Companies often have to adjust their [pricing strategies](https://app.studysmarter.de/link-to?studyset=9794839&summary=63545490&language=en&amp_device_id=pLQUIN7wsignOPZK2QjPfB) with situational and environmental changes. However, this is not a simple task as there are seven different types of price adjustment strategies:

1. **Discount/allowance pricing**- including cash discounts (e.g. 5% discount if the bill is paid within the first ten days) or trade allowances (e.g. a discount if you return your old machine when buying a new one).
2. **Promotional pricing** - adding a discount to a product to increase sales volume (e.g. a 20% discount limited time offer).
3. **Segmented pricing** - charging different prices for different geographical, product, or customer segments (e.g. students get 20% off).
4. **Geographical** **pricing** - setting different prices for customers in different countries or cities. For example, a standard Netflix subscription in the UK is £10.99; in Egypt, it is EGP 165 (around £7.20).²
5. **Psychological pricing** - involves considering the psychology behind pricing. Customers may be willing to pay a higher price for a product perceived as good quality.
6. [**Dynamic pricing**](https://app.studysmarter.de/link-to?studyset=9794850&summary=63545509&language=en&amp_device_id=pLQUIN7wsignOPZK2QjPfB) - constantly monitoring and adjusting prices to match customer demand and needs.
7. **International pricing** - setting prices in different countries based on market factors such as economic conditions, political conditions, legislation, etc.