

PRICING DECISIONS

PP-1

Methods of Pricing

Long run

$$\begin{aligned} & VC \\ & + FC \\ & \hline TC \\ & + Profit \\ & \hline Price \end{aligned}$$

• skimming
• includes all cost (TC)

minimum p.

marginal p.
Variable based
Penetration p.

$$\begin{aligned} & VC \\ & \hline Price \end{aligned}$$

only VC
• perishable, seconds, new prod, large stocks, obsolescence
FC included for CO as whole
∴ only product related VC.

differential p.

$$\begin{aligned} & VC \\ & (+) \text{specific FC} \\ & (+) \text{profit} \\ & \hline price \end{aligned}$$

ignores opp. cost.

Relevant cost

$$\begin{aligned} & VC \\ & (+) S.F.C \\ & (+) opp^n \text{ cost} \\ & (+) \text{profit} \\ & \hline price \end{aligned}$$

• possible when idle capacity (X opp^n cost)
• use in special situations (eg: export)

Conversion Costs

$$\begin{aligned} & DM \\ & + DL \\ & + MOH \\ & + Profit [DL + MOH] \\ & \hline \text{conversion cost} \end{aligned}$$

$$\frac{\text{conversion cost}}{DM} \times DM$$

$$\hline price$$

profit on value added X on DM.

Methods of pricing

Learning curve efficiency p

↓ cost → price.

LC theory

Prod ↑ efficiency ↑

Time ↓ cost ↓

pass ↓ cost to customers.

Competitive dependent on comp behaviour.

(A) Going rate: all open.

(B) Sealed Bid: tenders etc. (min price)

Rate of Return Return on CE

$$\begin{aligned} & TC \\ & (+) \text{profit} [\% \text{ of CE or ROR}] \\ & \hline price \end{aligned}$$

* be careful pre tax & post tax

price = incl of tax (we recover tax from cust)

standard cost

$$\begin{aligned} & SC \\ & (+) \text{profit} \\ & \hline price \end{aligned}$$

FC = normal C
X FC p.u.
current = actual
FC CE X FC p.u.

Read & carefully: First & last part [Hints abt method of pricing]

• MOS + BES = 100% Sales.

• discount = only @ full capacity (when you could sell to normal cust)

• Inter CO & inter group = only VC (ignore profits)

• & silent use: relevant cost [if opp^n cost X there O] includes long & min price.