Managerial Economics
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Lecture - 79
Types of product Pricing – continued - IV

So, in the present session, we will continue our discussion on product pricing, few we will discuss few more kind of pricing. And then we will sum up our entire Managerial Economics course, since we have covered all the topics whatever we thought of covering in this typical course.

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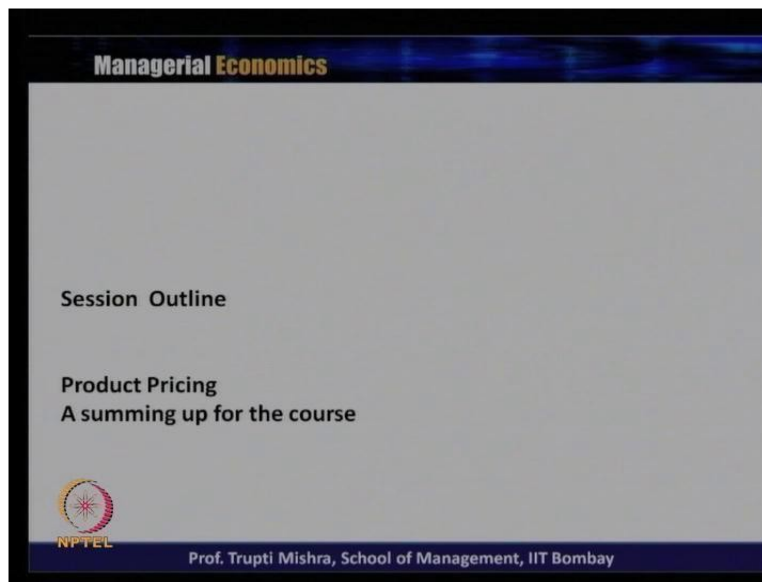

So, to start with, if you remember in the last class, we talked about the product pricing, mainly when the pricing is done on the basis of the product lifecycle and on that basis, we generally talked more about the product scheming. And then we discussed about the pricing based on side like cyclical pricing, pricing based on this input output relationship, then we talked about the Ramsey pricing and the transfer pricing. So, we will discuss some more types of product pricing now and to start with we will talk about peak load pricing.

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Peak load pricing

Kind of price discrimination in which consumers are segregated on the basis of time segments
- different prices are charged for the same facility used at different point of time by the same customers.

Time zone – Peak load and Off peak load

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And in case of peak load pricing it is a kind of price discrimination typically, in which consumers are segregated on the basis of time segment. So, here it is not the same kind of pricing, for the different consumer group rather it is a different,different kind of price discrimination different kind of pricing for the different consumer group. So, it is a part of price discrim…., so rather than it say the pricing technique we can say it is a price discrimination technique, what we and in this case generally we load, we use this peak load pricing.

So, this is the kind of price discrimination which segregate consumer into different group on the basis of the time. So, it is like user or consumer or user in a typical time period will charge more, user in the typical time period will be charged less. So, in this case different prices are charged for the same facility use at different point of time by the same customer. So, even if it is the same customer when he uses the product or when he uses the service at the different point of time different pricing he has to pay.

So, typically this segregation is on the basis of the time and here on the basis of time zone the entire time zone is divided into two types, one is peak load and the other is off peak load; and in case of peak load generally higher price will be charged.

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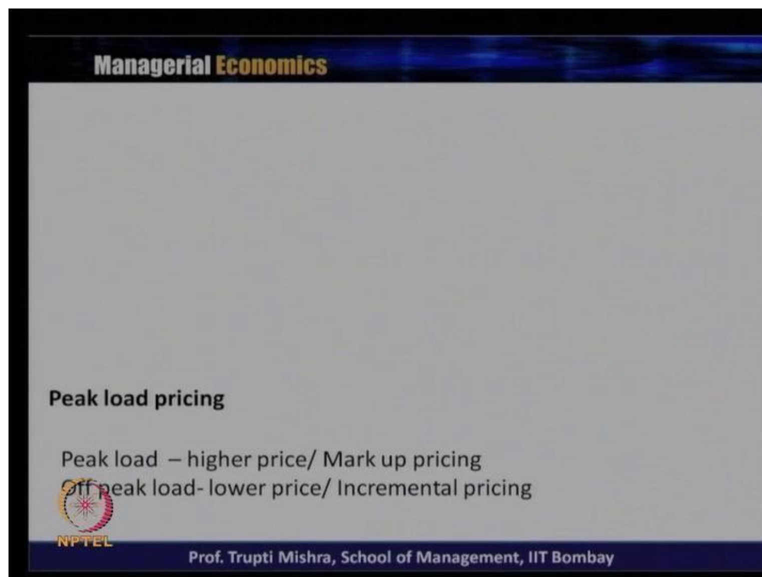

And here the pricing model is markup pricing and in case of off peak load generally off peak load pricing where there will be lower price will be charged. And the pricing is based on the incremental pricing. So, the entire time zone is divided into two kind of time zone, one is peak load, another is off peak load; peak load where activities are high and off peak load is when the activities are less.

So, activities are low high in this case it is higher price for the product or higher price for the service and the pricing is on the basis of the markup pricing. And in case of off peak load, generally where the activities are bit less there it will lower price and in this case the pricing technique is incremental pricing.

Then the typical example of peak load pricing is like, if you remember during the initial days when the cell phone service providers where there. Or generally with the time period it they use to charge a different, different pricing like first 100 minutes may be you know you get a free services. Then next 100 local to local, the next 100 minutes will be charged in a different price and the call up more than 200 units will be charged in a different price.

Similarly, when this yesterday prices if you look at there were different pricing from morning 6 to 8 then 8 to 9 and again from 9 to evening 7 o clock it is the peak load pricing. Because, there the activities are more and that is why it is a higher price and after 7 to 9 the reach is 1/3rd half

of the actual price. And after 9 o clock or after 9 to 11 generally we use to get 1/3rd and after 11 o clock we use to get one fourth.

So, on the basis of the different time of the day generally, the yesterday rates were varying. And this is generally the example of the peak load pricing, where in the off peak load generally prices are less and in case of peak load the prices are more. Similarly, if you look at typically in the that is not being practice in India; but in some foreign country the energy are more, the electricity charges are more during the peak hour, during the business hour and energy prices will less during the off peak hours.

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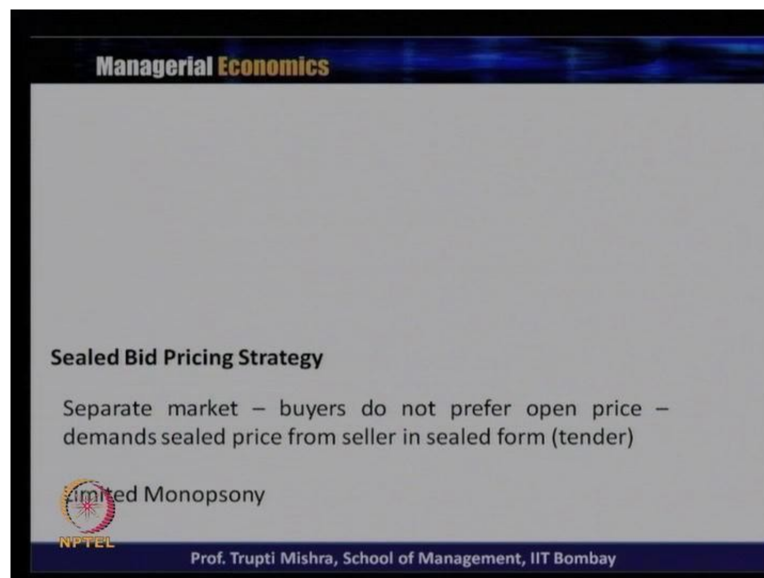

Then we have the sealed price bill pricing strategy, here it is a kind of separate market altogether buyer do not prefer the open price and demand sealed price from the seller in a sealed form the typical example is tender here. So, this is the example of limited monopsony, when there is only one buyer and the number of sellers are many. In this case buyers do not prefer a open price or the open market price they ask the seller whatever the prices they are going to charge for the product they have to give it in the sealed form.

And looking at the price generally they will decide the buyers will decide from whom they are going to buy. This specifically happens in case of the monophony buyer. And also typically all

this government offices and the public utility services with the regulatory authority. Generally they ask for the quotation from the different seller that whatever the prices they are going to charge for doing a specific job. It is always in the seal form typically known as the tender price and they always follow the lower tender price people.

Generally if you look at this the regular practice that the if someone has quoted a lower price, lower tender price generally they gets the deal. So, the typical example of seal bid pricing strategy is the tender, which generally happen in case of the limited monophony and also in the government offices, where the accounting accountability is very high.

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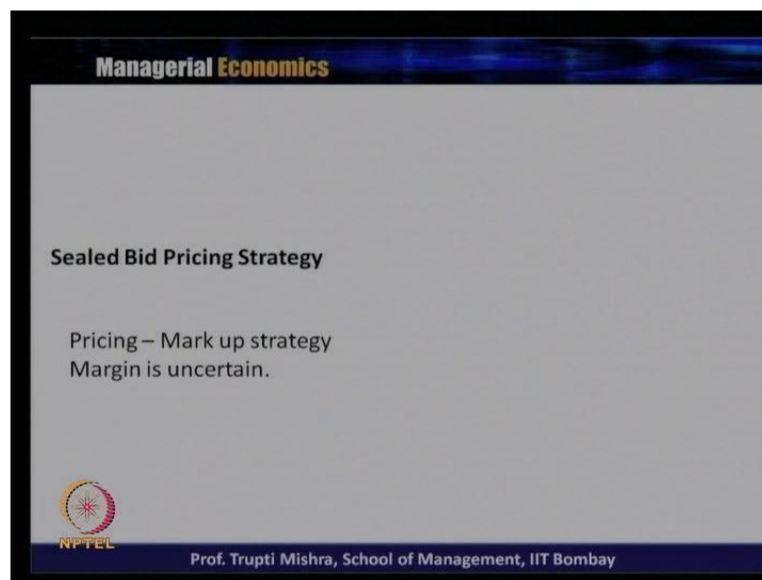

Then in case of sealed price pricing strategy, markup generally it is follow markup strategy and markup strategy where there is a cost of production plus some margin. But, here the challenge comes what should be the margin, because if there are ten bidders and each of them they are bidding for it. The when they decides the margin, they cannot quote a lower price lower margin, because it may happen that when they are quoting a lower margin and that leads to a lower price which looks unrealistic.

And which gives a impression that they are not going to go, they are not going to give a qualitative job. So, in that case also they are not going to get the tender and also in the case of

high bidding price, when they put up a high margin they are not going to get the tender because that looks like in a in a very high level.

So, margin is generally fixing up the margin is challenge in case of the seal bid pricing strategy even if they are following markup pricing, because it is a it is not a open price rather it is a close price. So, it is difficult to know the, what are the margin of the other competitor who is bidding for this typical goods or the typical services.

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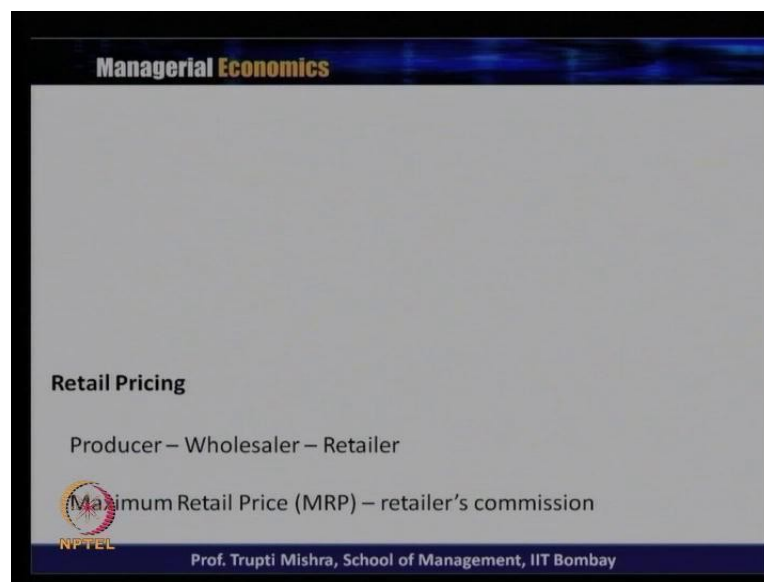

Then we have retail pricing and how retail pricing is different from the producer pricing or the wholesale pricing, what is the value chain over here producer generally produce the product, then they send it to the wholesaler. So, producer generally sells the product in price to the wholesaler and from retailer buy from the wholesaler and sell it in the market. So, every time there is some value addition and if you look at whatever the price is charged by the producer, it is not going to be same by the wholesaler, they will add their margin.

And from wholesaler when it comes to retailer that is again their margin is being added. And finally, whatever the price we get that is the maximum retail price if you have seen in all these product it its written MRP is this much. So, maximum retail price and in the maximum retail price generally the retail commission is the commission of the retailer is added over here. So,

retail pricing is one at that price generally the consumer buys product from the retailer, and in case of maximum retail price the retailer commission is added.

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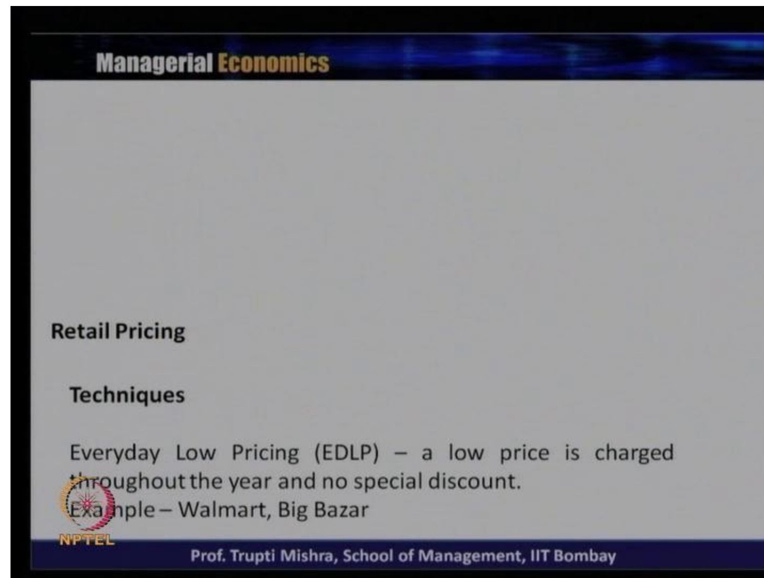

Now, what is the technique for this retail pricing or what is the pricing technique generally followed by the retailer. One example is the everyday low pricing that is generally known as the EDLP and under this technique generally a low price is charged throughout the year and there is no special discount.

So, typical example if you look at generally we call it is the big bazaar or whether it is the Walmart or whether it is the duller store. Or whether it is the easy shop there are number of chain if you look at number of supermarket, they charge is low low price constantly throughout the year. And in that case there is no other discount rather than because they are a lower price throughout the year and this pricing strategy is known as the everyday low pricing.

And here also the consumer have the understanding that if you are going to that particular store, there every throughout the throughout the year everyday they are paying a lower price for all this product as compared to the other product. Then the other technique is high low pricing.

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Retail Pricing

Techniques

High Low Pricing – high prices on regular basis, coupled with discount to promotion the product.

Adopted by firms which have high overhead expenses and cannot afford low pricing.

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And high low pricing is the high prices on the regular basis, coupled with discount to promotion the product. This is generally followed by the retailer typically the when they want to make it a branded product, generally they always say that see this is a good brand they have to follow a high price. They have to follow a high price on the regular basis, but they give some discount promotion the promote the product. This is typically adopted by firms, which have a high overhead expenses cannot afford low pricing.

The typical example if you look at the whether it is about good brand, whether it is about Tanishq or whether it is about any good brand of garments. Every day they charge a higher price, because they charge that price for their brand; and on a particular day or on a particular occasion they give discount when they have to promote their product.

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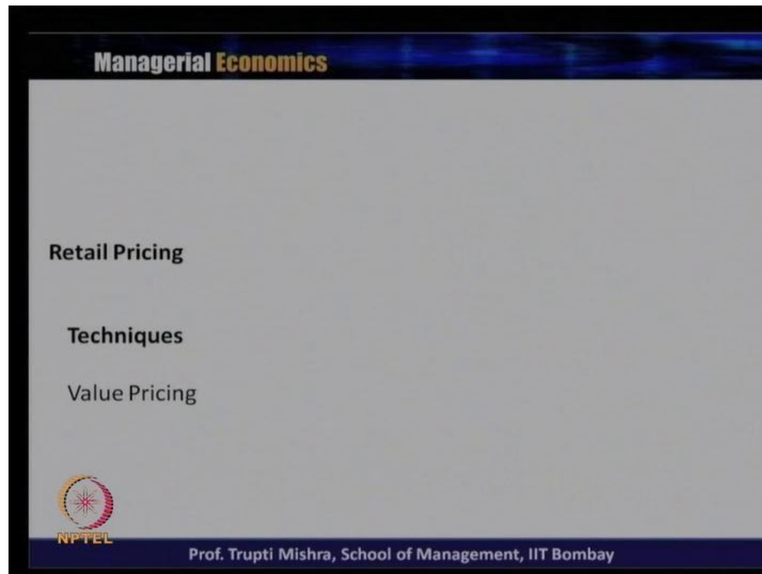

Then in that technique we have one more pricing that is known as value pricing, where it is a value for money generally, they say that what is the perceived value attached to the product. The retailer generally they take a judgment on the basis of the perceived value of the product from the consumer point of view and on that basis generally they do a value pricing. If the consumer is giving having a very high perceived value for the product, they charges the higher price, and if it is a low perceive value they generally charge a low price.

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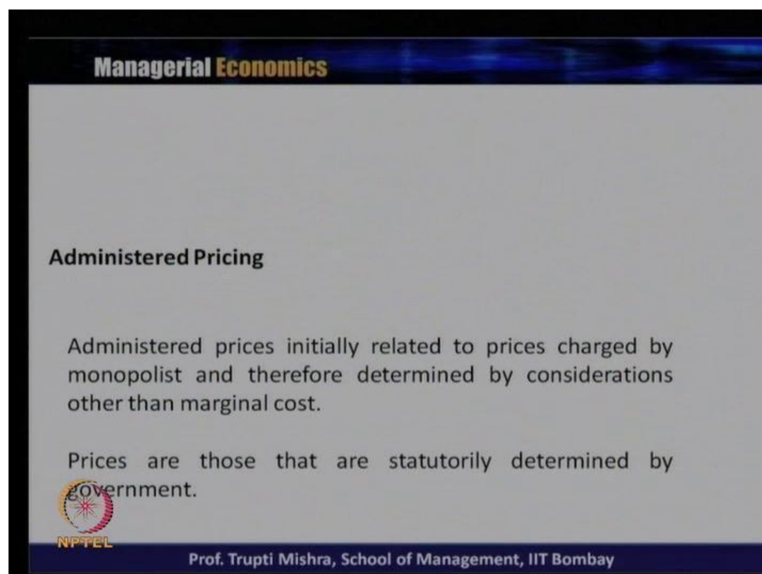

Then we have administer pricing and administer price is generally related to price charged by the monopolist and therefore, determined by the consideration other than marginal cost. And prices are those that are statutorily determined by the government, this is typically known as the administer price.

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Export Pricing

International trade
Export price – income level, taste and preferences of the consumers, exchange rate , tariff and custom duties.
Identify all competitors who supply the same product in the same market.

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Then we have export pricing and export pricing comes into picture, because there is international transaction taking place after typically the when the international trade is there. Or the when the liberalization and the globalization has taken place and international trade either we import the product where we have to make the payment the domestic economy has to make the payment and or it is exported; so where we receive the payment.

So, when the export price is fixed in this case the determinant for the export price is need to check, where this product is getting exported, what is the income level of that country, what is the taste and preference of the consumers of that country. What is the exchange rate between the currency of that country where the transaction is taking place and the domestic currency, what is the tariff and custom duties in that country to the trading. Identify and also to identify all the competitors, who supply the same product in the same market, because export price is something where the domestic product is getting sold in the foreign market.

So, pricing is not on the basis of the domestic business environment rather this is on the basis of the foreign country business environment, where the product is getting sold or where the product is getting exported. So, that is why here the exporter, when they are fixing up the price they need to consider, what is the income level, what is the taste and preferences, what is the exchange rate, what is the tariff custom duty.

And also one of the important factor they have to look into that, who are the other competitors or who are the other supplier, who is exporting the product to that particular region or that particular location. So, with this we completed our discussion on the product pricing. And if you remember in the product pricing, we discussed about the different kind of pricing that is based on competition, that is based on the goal of the firm; that is based on the cost, that is based on the cyclical changes, that is based on the product lifecycle.

And also we talked about two pricing, but basically one is the multiproduct pricing, where pricing is decided on the basis of the combined marginal revenue. And the second one is the price discrimination, which is generally practiced by the monopoly when they charge different prices to the different consumer group in different market and different time period.