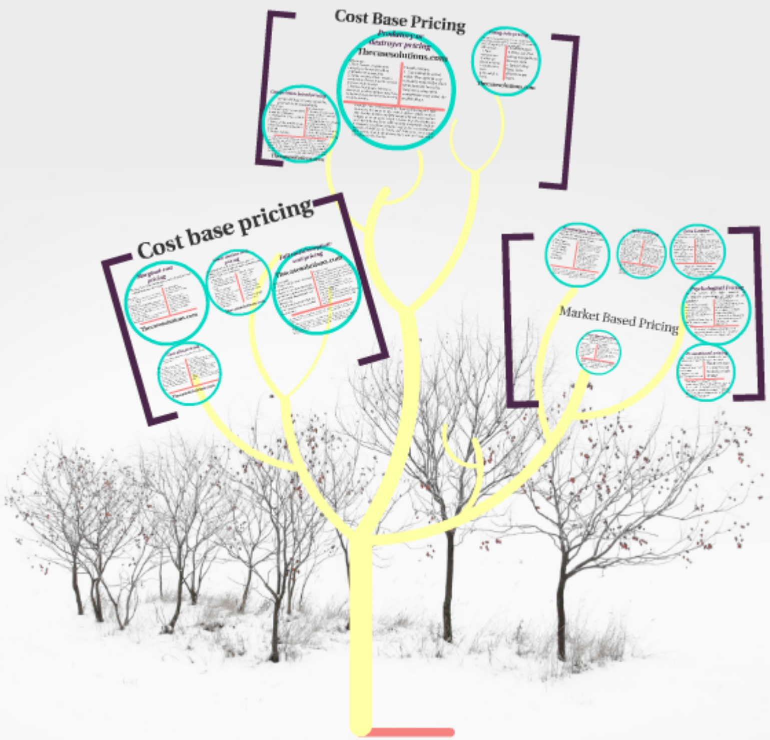

Pricing Jonstan's

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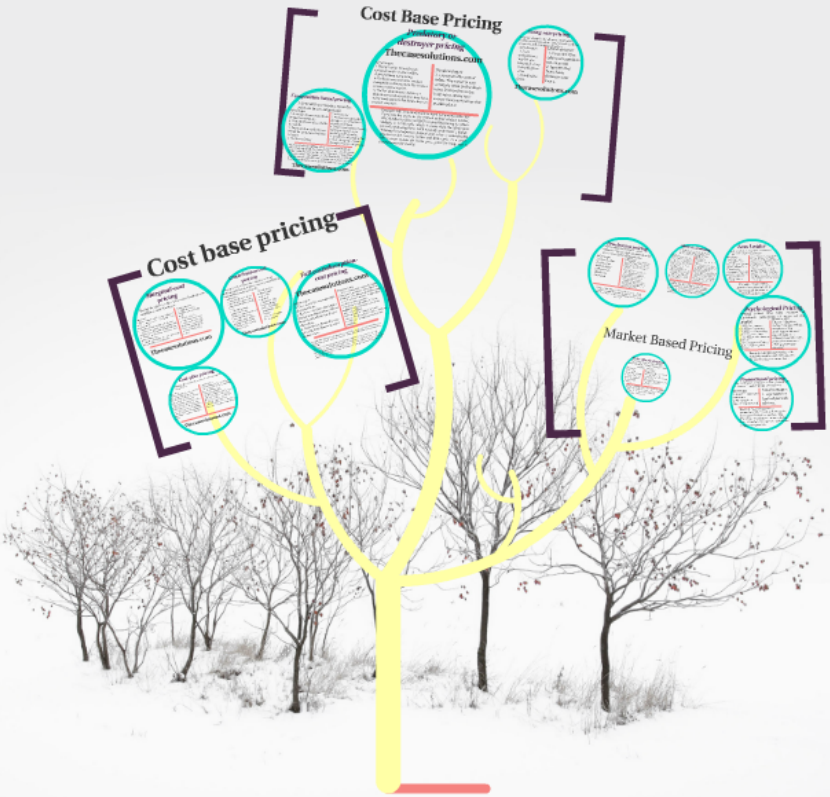

Pricing Jonstan's

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Cost-plus pricing

Adding a fixed mark-up for profit to the unit price of a product.

Advantages:
1. Fair method of price fixation. The price fixed will cover the cost.
2. Assured Profit: If price is greater than cost, the risk is covered.
3. Reduced risks and uncertainties
4. Considers market factors: The mark up added to the cost to make a price reflect the well established customs of trade, which guide the price fixer towards a competitive price.

Disadvantages:
1. Ignores demand: Doesn't take in account the buyers needs and what they are willing to pay.
2. Ignores competition
3. It takes for granted that the costs have been estimated with exact accuracy which is not often true
4. Ignores opportunity cost
5. More cost if the sales volume is less and less cost if sales volume is more.

Marginal-cost pricing

Basing the price on the extra cost of making one additional unit of output.

Advantages:

1. Cost control: easy because it doesn't have a fixed cost, consistent cost-management.
2. Simple (to understand and operate)
3. short-term profit: comparative and easiliy assessed (easy decision making)
4. Shows relationship between cost, price and volume.
5. Stock valuations are not distorted with present years fixed costs

Disadvantages:

1. Unclear results: variable costs in a long term.
2. Doesn't take in account the fixed costs
3. Difficult to compare: Between any period of time, unreliable which will give misleading results.

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Contribution cost pricing

setting prices based on the variable costs of making a product in order to make a contribution towards fixed costs and profit.

Advantages:

1. All variable costs will be covered by the price and a contribution made to fixed costs.
2. Suitable for firms producing several products- fixed costs do not have to be allocated.
3. Flexible- price can be adapted to suit market conditions or to accept special orders.

Disadvantages:

1. Fixed costs may not be covered.
2. If prices vary too much- due to the flexibility advantage- then regular customers might be annoyed.

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Full cost/absorption-cost pricing

Advantages:
1. Price set will cover all costs of production.
2. Easy to calculate for single-production firms where there is no doubt about fixed cost allocation.
3. Suitable for firms that are price makers due to market dominance.

Disadvantages:
1. Not necessarily accurate for firms with several products where there is doubt over the allocation of fixed costs.
2. Does not take market/ competitive conditions into account.
3. Tends to be inflexible eg. There might be opportunities to increase price even higher.
4. If sales fail, average fixed and average total costs rise- this could lead to the price being raised using this method.

Example: ABC International expects to incur the following costs in its business in the upcoming year: Total overhead expenses = $500,000 Total administration expenses = $250,000
The company only expects to sell its purple widget in the upcoming year, and expects to sell 20,000 units. Each unit has a variable cost of $10.00. The calculation of the fully-absorbed price of the purple widget before the inclusion of a profit margin is: $10.00 Variable cost + (($500,000 Overhead + $250,000 Administration)/20,000 units) = $47.50/unit

Competition based pricing

A firm will base its price upon the price set by its competitors.

Advantages:	Disadvantages:
1. It avoids price competition image the company. 2. Competitive data available for public 3. Focus on the attributes on which the purchase decision is based. 4. Market stability	1. Businesses may need to engage in other tactics to engage customers. 2. Pricing method may barely cover production costs, resulting in low profits. 3. Stability is achieved at the cost of sub-optimal profits through conservative pricing.

Example: Walmart is selling a face wash for $3.99. NuMart, who is looking to sell this product in the same area, also prices their product at $3.99 in order to capture market share. They will not receive higher profits per unit than Walmart with this pricing strategy, and will have to engage in marketing tactics to engage customers, since the price itself is not an incentive.

Predatory or destroyer pricing

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Advantages:

1. Entry barrier. Possible new entrants to the market will be deterred from competing.
2. Reduces competition. weaker competitors driven from the market or into a niche market.
3. Market dominance. Achieve a dominant market position, may have to be used again in the future for new market entrants.

Disadvantages:

1. Questionable actual value. The concept can certainly work in the short term, but not be in the long term, since new competitors may enter the market place.

Example: ABC International has been competing with DEF Company for years in the critical yellow widget market. ABC decides to drive out DEF for good by pricing its yellow widgets at $2.50 each, which is lower than the $3.00 unit cost of producing them. DEF recently underwent a highly-leveraged management buyout and so has a considerable amount of debt on its books and little cash. As a result, DEF cannot match the lower price point for long, and is forced to exit the market.

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Going-rate pricing

the price charged is based upon a study of the conditions that prevail in a certain market and the prices charged by major competitors.

Advantages:

1. New entrants to a market are favoured since it avoids price wars.
2. Establishes firms.

Disadvantages:

1. Price set after taking competitors into account
2. Ignores that firms have different cost bases.