8

Pricing Strategy

LEARNING OUTCOME

Upon completion of this module, you should be able to:

- Explain different types of pricing strategies for ICT-related products and services.
- Propose justifiable pricing strategies for your project.

8.1 General Description of Pricing Strategy

Pricing strategy is about adjusting the prices with the aim to establish an optimum price for maximizing profit, maximizing the number of units sold, or any other gains indicators. Pricing is defined as the amount of money charged for goods or services or the sum of all the values that customers give to gain the benefits of having or using the goods or services.

The common pricing strategies used are:

1. Cost-plus pricing
2. Competitive pricing
3. Value-based pricing
4. Price skimming
5. Penetration pricing
6. Premium pricing
7. Loss leader pricing
8. Psychological pricing
9. Economy pricing

Choosing the right pricing strategy(s) is super important for a business, rather than setting the price by a mere addition of cost and mark-up calculation.

8.1.1 Cost-plus Pricing

Cost-plus pricing strategy is considered the simplest method for setting the price. The basic idea is to sell with a price that is more than what we spent – the cost of the product plus a percentage on top of that price (called mark-up). The steps to calculate the price of a product based on cost-plus strategy are as follows,

1. Determine the total cost of the product – fixed and variable costs. Fixed cost does not vary according to the number of units, while variable cost does.
2. Divide the total cost by the number of units. This will produce the unit cost.
3. Multiply the unit cost by the mark-up percentage. This will produce the selling cost as well as the profit margin.



Activity 8.1

Define the advantages and disadvantages of cost-plus pricing strategy. Then, calculate the price of your product/service using the cost-plus pricing formula. Determine whether your project is suitable to implement a cost-plus pricing strategy and justify.