PRICING FRAMEWORK

In a pricing case the objective is to determine a methodology for pricing of any product. The product could be a new invention or it could have other competitor products in the market. The candidate should determine the objective of the company, understand the product features and market environment and then apply a relevant methodology to price the product.

It is imperative to consider the objective of the company, since it directly affects the pricing strategy to be followed. One should then attempt to understand the product characteristics and the market environment to apply a prudent pricing methodology.

For example, in case the pricing needs to be done for an old product (rare scenario), the utility of the product w.r.t a new product and the depreciation/salvage value need to be taken into consideration.

DEFINING THE PROBLEM

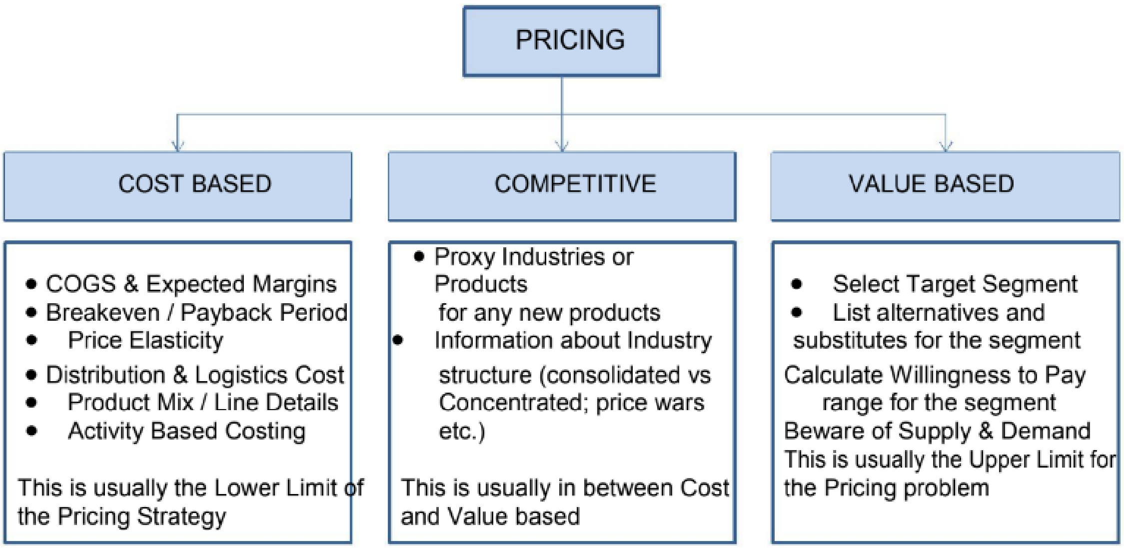
- Identify if it's a bidding, auction or a straightforward pricing problem.
- Get a clear picture of the product and the target customer segment.

STRUCTURING THE CASE

1. Once the framework is laid, start getting into the depth of the pricing options:

- **Cost based**
- **Competitive**
- **Value/Price based**

A brief overview of each of these is given in the flowchart below:



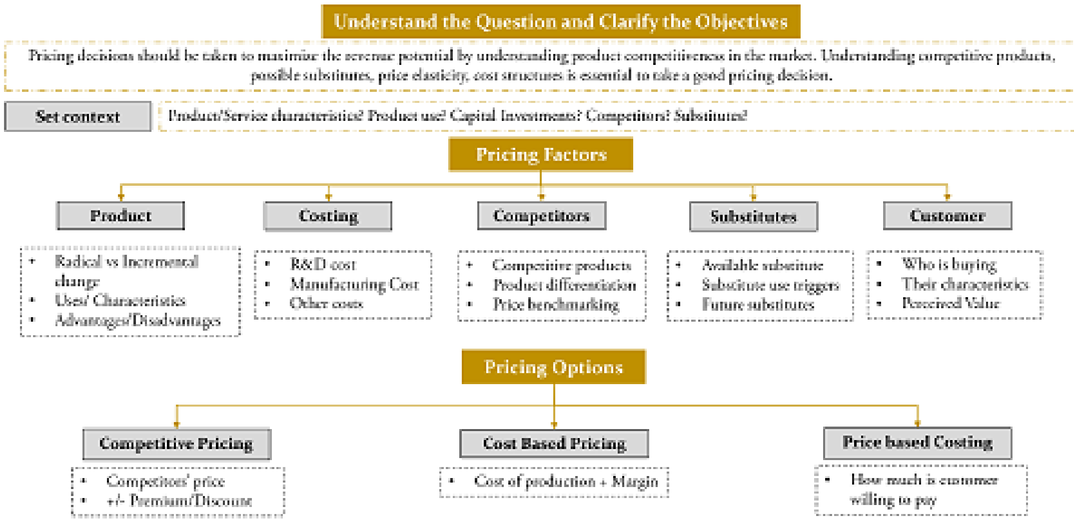
Source: Indian School of Business, Consulting Casebook – Class of 2015

After identifying the pricing options, we proceed with analysing the relevant pricing factors such as:

- Product
- Costing
- Competitors
- Substitutes
- Customer

2. Recognize border or limiting constraints such as policies and other regulations.

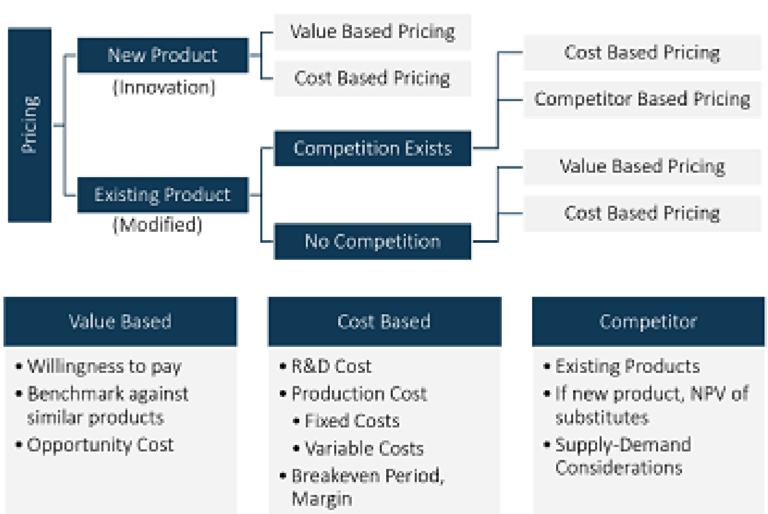
3. Once the lower and upper ends of the pricing are calculated - offer a rational explanation reasoning to the price range you would choose. These could include customer switching costs, fluctuations in WTP etc



Source: The Consulting Club, FMS Delhi

Note: While considering the product in question, it is important to identify it as an existing product or a new product/invention – as some factors will vary in such a case.

For Example: If it is a case of an existing product – then there will be two cases of competition; one where it exists and one where it doesn't. Thus, the presence of competition will affect the factors taken into further analysis.



Source: IIM Calcutta Consult Club

TIPS

- A supply vs. demand tradeoff approximation is always helpful in such key questions, considering graphical representations.
- Many pricing problems are masked 'market size' estimation problems. When the conversation goes in that direction, ensure you specify that you'd calculate the market size before pricing the product.
- There's no single price – always offer a price range.
- Mentioning the sensitivity metrics in calculations would fetch additional brownie points.
- Think about competitive reaction in the market
- Topics like bundling and other innovative prices (discount scheme etc.) will fetch brownie points.
- Many Pricing cases also turn out to be masked 'market demand estimation' cases.

PRELIMINARY QUESTIONS

- Which industry are we talking about and what is the objective of the company?
- What are the product features? Is it a single product or a product line?
- Who is the customer in the supply chain? Is the product a luxury or a necessity?
- Is the product patented? Is it easy to imitate?
- Does the firm want to push the competitor out? Does the firm want to play price war?
- What is the expected margin and payback period?
- Who are the competitors and what prices are they offering?
- How is the product different from what the competitors are offering?