
TECHNICAL TEACHERS' TRAINING INSTITUTE, BHOPAL

Workshop on
"Marketing of Educational Institutes, Programmes and Services"

PRICING & COSTING

PRICING

Pricing includes price, discounts, payment terms (installments), credit and mode of payment (cash or demand draft or cheque).

Factors Influencing Pricing

Internal Factors

Corporate and Marketing Objectives of the firm
Image sought by the firm through pricing
Characteristics of the product
Price elasticity of the product
Stage of the product in its life cycle
Use pattern and turnaround rate of product
Costs of manufacturing and marketing
Extent of distinctiveness of the product and extent of differentiation practiced
Other elements of the marketing mix
Composition of the product line of the firm

External Factors

Market Characteristics (demand, customer and competition)
Buyer behavior in respect of the product
Bargaining power of major customers
Bargaining power of major suppliers
Competitors' pricing policy
Government controls / regulations on pricing
Other relevant legal aspects
Social considerations
Understanding reached, if any, with price cartels

Objectives in Pricing

- ❖ Profit maximization in the short term
- ❖ Profit optimization in the long run
- ❖ A minimum return on investment
- ❖ A minimum return on sales turnover

- ❖ Achieving a particular sales volume
- ❖ Achieving a particular market share
- ❖ Deeper penetration of the market
- ❖ Entering new markets
- ❖ Target profit on the entire product line, irrespective of profit level in individual products
- ❖ Keeping competition out, or keeping it under check
- ❖ Keeping parity with competition
- ❖ Fast turnaround and early cash delivery
- ❖ Stabilizing prices and margins in the market
- ❖ Providing the commodities at prices affordable by weaker sections
- ❖ Providing the commodities / services at prices that will stimulate economic development

Broad categories of Pricing Methods

- Cost-based pricing
- Demand-based pricing
- Competition-oriented pricing
- Value-pricing
- Product line-oriented pricing
- Tender pricing
- Affordability pricing
- Differentiated pricing

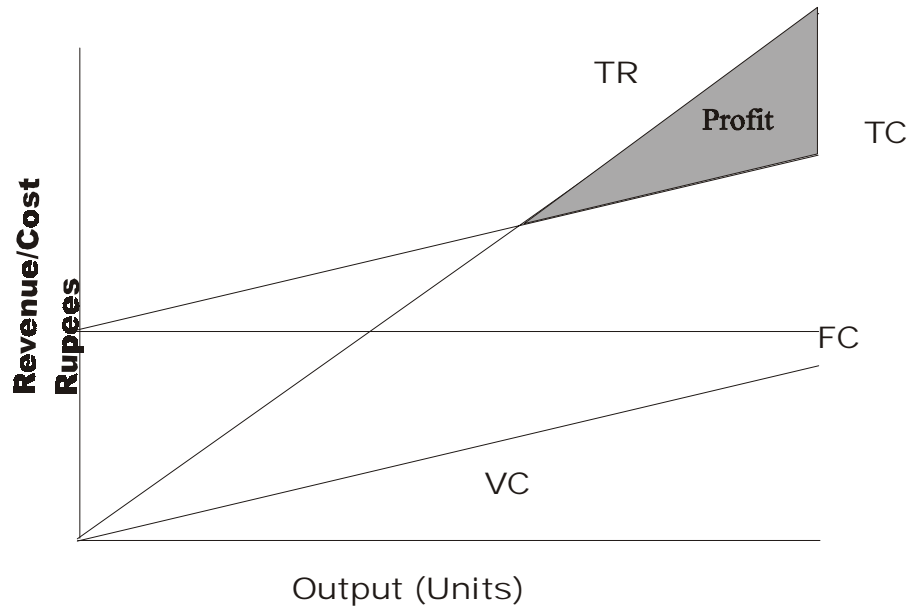
COST-BASED PRICING

Types of Costs in this workshop / course conducted by TTTI:

Fixed Costs (not related to number of participants) – salaries & perks, rent, office expenses, payment to visiting faculty, travelling expenses,

Variable costs (related to number of participants) – food & snacks, photocopying expenses, folders

In most educational institutes, programmes and services, fixed costs are predominant.



VC = Variable Costs, FC = Fixed Costs TC = Total Costs, TR = Total Revenue

Intersection point of TR and TC is Break Even Point

Types of Cost-based Pricing:

For cost-based pricing, first estimate variable costs per unit. Methods differ for allocation of fixed costs.

a) Standard Cost Pricing –

- i. Mark-up pricing – Add a fixed mark-up say 10% or 20 % to variable costs.
- ii. Absorption cost pricing – Estimate the total number of units likely to be sold and allocate complete fixed costs to the estimated number of units likely to be sold.
- iii. Target Rate of Return Pricing – Similar to absorption cost pricing; add the expected rate of return on investments to fixed costs.

b) Marginal Cost Pricing –

Contribution = Sales revenue per unit – Variable cost per unit

As long as a product generates positive contribution, it may be continued. Contribution accounting looks at the contribution generated

and tries to ensure that the total contribution is higher than the total fixed costs.

OTHER RELATED DIMENSIONS

Price plays a **communicative role** – index of quality or luxury or status or technical excellence or exclusiveness (It is said that Napoleon used to eat his food in aluminum utensils)

Ex-factory price versus price to consumer

Psychological pricing – Customer has a mental price band for the product. To remain within the band, BPL priced its 21 inch color TV model at Rs.10,900- instead of Rs. 11,000- Similarly BATA price of Rs.499.99

Payment System – cash / DD At one time Bajaj used to ask its customers to give a DD for purchase of any scooter. Many companies now use Roaming current account where a customer can deposit the payment. IIT JEE fee is payable at the local bank at the time of purchasing the form – compare this with old system of postal order at the time of writing to IIT for form followed by more postal orders / DD with application form.

Financing Options – Even educational institutes may soon be offering package of loan with admission, in a manner similar to automobile companies.

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CLASS ASSIGNMENT

PART A – COMMON DISCUSSION

A mineral water manufacturer has an installed capacity of 10,000 bottles of 1 liter per day. On an average, his plant can operate for 300 days in a year. His investment in building, plant and machinery etc. is approx. Rs. 1 Crore. Some other data about his operation is follows:

Bought-out items

PET Bottle	Rs. 3.00 per bottle
Cap	Rs.0.30 per cap
Label	Rs. 0.20 per label
Sealing sleeve	Rs. 0.08 per sleeve
Packing carton	Rs. 9.00 per carton used for 12 bottles
Sealing Tape	Rs. 0.12 per carton used for 12 bottles

Some other costs

Electricity	Rs. 0.02 per bottle of 1 liter
Cost of Raw water	Rs.0.02 per bottle of 1 liter
Chemicals used	Rs. 0.02 per bottle of 1 liter
Average Transportation cost	Rs. 15 per carton
Excise	10% of ex-factory price
Sales Tax	5 % of ex-factory price inclusive of excise

Fixed costs

Salaries & Wages	Rs. 1,00,000 per month
Advertisement & Publicity	Rs. 10 Lakhs per annum
Insurance	@ 2% of capital investment
Depreciation	@ 15% of capital investment
Interest	Company has a term loan of Rs. 0.5 Crores at an interest of 15% per annum and has

	availed working capital limits of Rs. 5 Lakhs from bank at an interest rate of 18% per annum.
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Price Structure

Retail Price	Rs. 10.00 per bottle of 1 liter inclusive of all taxes
Retailer Purchases at	Rs. 8.50 per bottle of 1 liter inclusive of all taxes
Distributor purchases at	Rs. 8.00 per bottle of 1 liter inclusive of all taxes

The company hopes to achieve a capacity utilization of 40% in first year, 50 % in second year and 60% in three year.

Based on the above data, please answer the following questions:

- a) What is the contribution per bottle of 1 liter?
- b) What is the break-even level for the company?
- c) What will be the profits / losses of the company in the first three years of operations?

PART B – GROUP WORK

Please divide the class into three groups of about 7 – 10 persons to each group. Each group will take up for study one educational programme and study all costs involved with the said course.

Each group may discuss for 15 minutes. Subsequently, each group will make a presentation to the class.

Discussion time	15 minutes
Presentation time	5 minutes for each group
Question time	5 minutes for each group