YESHWANTRAO CHAPHEKAR COLLEGE, PALGHAR

PRESENTATION

ON

CHAPTER- 18.PRICING PRACTICES- II

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Limitations of full cost pricing method

- This method ignores demand. Price is workout assuming sufficient demand.
- It does not consider competition.
- Difficult to work out the average cost in a precise manner, if a firm produces more than one product.
- Difficult to classify the cost in different categories.

Advantages of full cost pricing method

- It is the classical method of charging a price for a commodity.
- It is also a logical way of maximising long-run profit.
- Covering the cost of production and earning a certain percentage of profit .
- Price based on cost of production are considered fair for producers as well as consumers.

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- Full cost pricing method can avoid frequent changes in price. Consumers do not appreciate changes in price which occur frequently.

- In reality market is uncertain and knowledge is incomplete, under this situation business people prefer a stable price based on full cost.

- It avoids the problem of marginal cost method. It is difficult to workout the MC in advance but even after the production.

Transfer pricing

- Large multi-product firms are often divided in smaller units or departments in order to avoid diseconomies of large scale production.
- Each unit or department is made a profit centre.
- These units and departments function independently, but they transact with each other.

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- Eg- Tata Consultancy Service (TCS) sells its service to other TATA firms like TATA Motors or TATA Steel. Such transactions between different units of the same conglomerate or between departments of the same firm are carried out at prices known as transfer prices.

- A transfer price is the price at which divisions of a company transact with each other.

- A transfer price can also be termed as a transfer cost.

Transfer price involves certain managerial strategies.

A)

- Different units of a company are responsible of their own profits.
- When they are required to transact with each other, a transfer price is used to determine costs.
- The price charged by one department while selling goods or services to one department of the same firm generates revenue to the departments that sells, while it determines the cost of the department that purchases.

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Transfer price involves certain managerial strategies.

B)

- Do not differ much from the market prices of the products.

C)

- Firms may use transfer pricing to avoid taxes.
- Companies sell goods within the same group but to subsidiaries in other countries.
- It avoids tariffs on goods.
- It requires documentation for auditors.

Multiple Product Pricing

1. **<u>Inter-related Product pricing</u>-**

- A company produces inter-related products in the form of substitutes or complementary goods.
- When such goods are produced a firm needs to consider the effect of a change in the price of one good on the other commodity.
- Eg- Hul, P & G.

Multiple Product Pricing

2**. Product Line Pricing** –

- Product line pricing strategy that uses various class distinctions.

- Eg- Head & Shoulder (Smooth & silky, Anti- Dandruff, Hair fall control,etc)