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Understanding Pricing Models

How Brands Use Pricing to Compete & Grow

Introduction to Pricing Models

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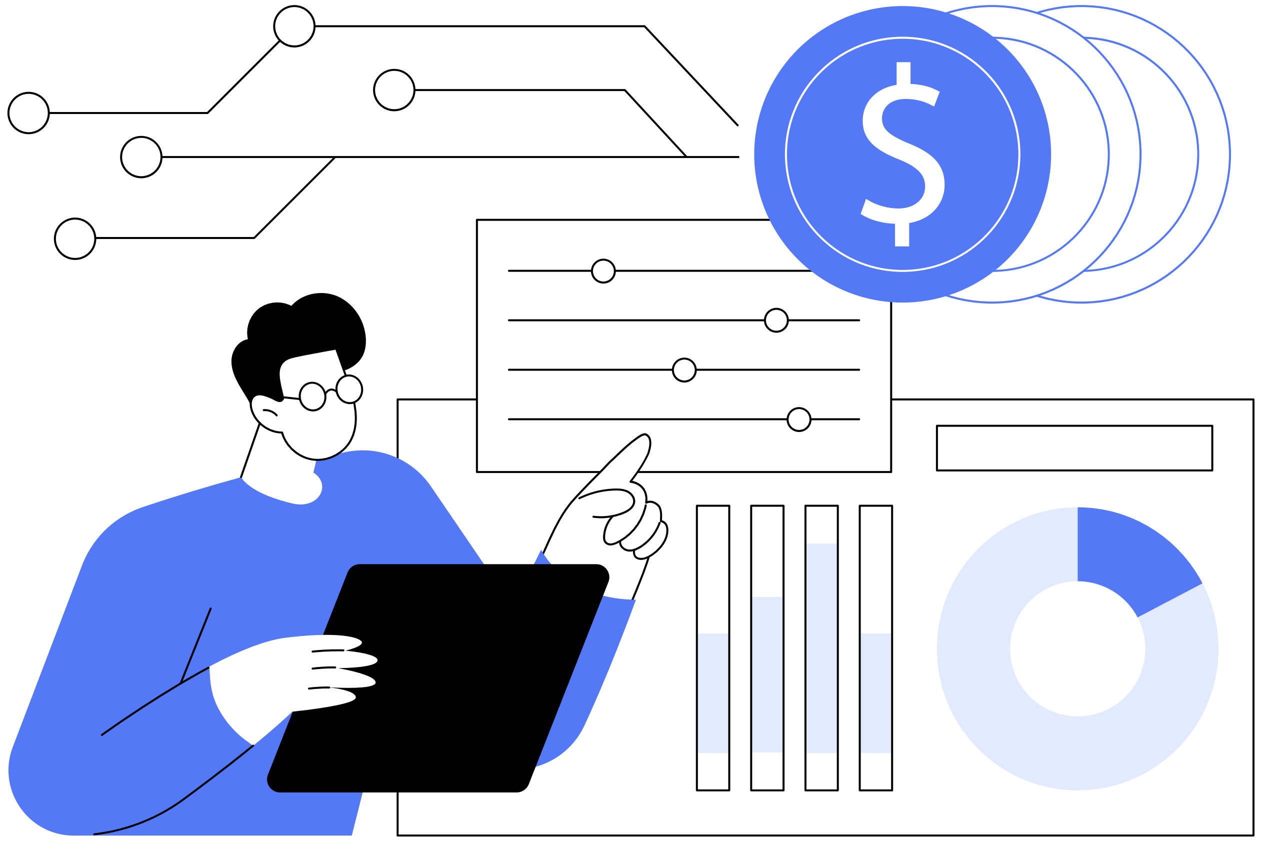
Pricing models define how a company sets prices for its products or services, considering factors like cost, market demand, competition, and brand value.

Why Pricing Matters

- Influences customer perception of value
- Directly affects profit margins
- Shapes market positioning
- Determines long-term sustainability



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What Drives Pricing Decisions?

- Production cost
- Target customer segments
- Competitor pricing
- Brand value & positioning
- Economic conditions & demand cycles

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Cost-Plus Pricing

A fixed percentage is added to the cost of making the product.

Example: Bata often uses cost-plus pricing for many of its footwear lines. For instance, if manufacturing a shoe costs ₹400, and the company adds a 50% markup, the selling price becomes ₹600.

✅ Pros

Easy to calculate
Ensures consistent margin

❌ Cons

Ignores market competition and demand

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Value-Based Pricing

Pricing is based on the perceived value by customers, not just the cost.

Example: A diamond necklace might cost ₹1 lakh to make, but due to the brand's trust and premium positioning, it can be priced at ₹1.5–2 lakhs.

✅ Pros

High margins
Customer loyalty

❌ Cons

Needs strong brand image and deep market research

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Penetration Pricing

Set a low price to attract customers, then gradually increase it.

Example: Jio initially gave free SIM cards and ultra-cheap data packs in 2016 to capture users. Once they gained enough market share, they began charging regular prices.

✅ Pros

Fast market share growth
Good for market disruption

❌ Cons

Unsustainable if margins are low

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Price Skimming

High initial price for early adopters; price is lowered over time.

Example: When a new Samsung Galaxy S-series is launched, it is priced high (e.g., ₹1,20,000), and within a few months, prices drop to attract price-sensitive customers.

✅ Pros

Early profits
Covers R&D costs quickly

❌ Cons

Slower market penetration

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Freemium Pricing

Basic version is free and users pay for premium features.

Example: Basic app usage is free, but users can pay ₹149 for Zomato Gold or Swiggy One for extra benefits like free delivery.

✅ Pros

Huge user base
Converts loyal users into paying customers

❌ Cons

Most users stay free
Can be expensive to maintain

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Dynamic Pricing

Prices change based on demand, location, time, or behavior.

Example: During heavy rain or rush hours, a ₹200 ride might go up to ₹500 due to surge pricing.

✅ Pros

Revenue optimization
Matches supply-demand

❌ Cons

Customer frustration
Requires advanced technology

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Psychological Pricing

Prices set to seem lower than they are (e.g., ₹99 instead of ₹100).

Example: Big Bazaar / D-Mart, frequently price items at ₹499 or ₹999 to make them appear more affordable.

✅ Pros

Proven to work in retail
Increases sales volume

❌ Cons

Doesn’t impact brand value much
May seem manipulative

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Bundle Pricing

Selling multiple items together at a lower combined price.

Example: MakeMyTrip / Yatra, flight + hotel packages are offered at a discount (e.g., ₹15,000 instead of ₹18,000 if booked separately).

✅ Pros

Sells more products at once
Increases average bill value

❌ Cons

Lower individual product margins
May not work if bundle isn't relevant

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Pay What You Want (PWYW)

Customer chooses how much to pay — sometimes even ₹0.

Example: Seva Café (Ahmedabad), you eat first, then pay what you wish. It runs on the principle of "gift economy

✅ Pros

Creates goodwill
Encourages customer generosity

❌ Cons

Highly unpredictable
Only sustainable in niche sectors

Types of Pricing Models

Loss Leader Pricing

A product is sold at a loss (below cost price) to attract customers, with the goal of making profits on other items they buy.

Example: Essential items like rice, sugar, or oil are sometimes sold below market price to draw in customers who then purchase higher-margin goods like snacks, electronics, or clothes.

ReliànceMART

✅ Pros

Attracts heavy footfall
Boosts sales of other profitable items

❌ Cons

Customers may only buy the discounted item and leave (cherry-picking)

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Hourly/Time-Based Pricing

Pricing based on time spent delivering a service.

Example: Freelancers & Consultants on Urban Company charge like ₹500/hour for home services or ₹1,000/hour for a makeup artist.

✅ Pros

Transparent pricing for services
Reflects skill/time invested

❌ Cons

May penalize efficiency
Clients might bargain heavily

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Tiered Pricing

Different levels/packages with increasing price and features.

Example: SaaS Products like Razorpay or Zoho
Basic tier is ₹0 or ₹500/month, mid-tier ₹2,000/month, and advanced tier ₹5,000/month.

ZOHO

✅ Pros

Captures different market segments
Encourages upselling

❌ Cons

Complex pricing structure
May confuse customers

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Auction-Based Pricing

Buyers bid, and the highest bidder wins the product or service.

Example: Telecom companies like Jio or Airtel bid to buy bandwidth licenses from the government.

✅ Pros

Maximizes revenue potential
Market decides the price

❌ Cons

Unpredictable revenue
Can favor large players only

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Performance-Based Pricing

Customer pays based on the results achieved rather than a fixed price.

Example: Digital Marketing Agencies charge based on conversions or leads generated — e.g., ₹50 per valid lead.

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Accelerating The Growth

✅ Pros

High value perception for clients
Aligns interests of buyer and seller

❌ Cons

Hard to track performance accurately
Delayed or disputed payments

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Captive Product Pricing

Main product is cheap, but accessories or consumables are expensive.

Example: HP Printers might cost ₹4,000, but cartridges cost ₹1,500 and need frequent replacement.

✅ Pros

High long-term profits
Encourages first-time purchases

❌ Cons

Can cause customer dissatisfaction
Creates dependence