



# SNS COLLEGE OF TECHNOLOGY

## An Autonomous Institution

### Coimbatore-35



Accredited by NBA – AICTE and Accredited by NAAC – UGC with ‘A+’ Grade  
Approved by AICTE, New Delhi & Affiliated to Anna University, Chennai

## Department of Automobile Engineering

### III YEAR/ VI SEMESTER

19MEE301 / Engineering Economics and cost Analysis

#### UNIT-5

##### **Going-rate pricing**

Going-rate pricing is a pricing strategy as per which sellers price their offerings on par with competitors. Most new companies who are clueless about product pricing adopt this tactic, especially when it's not easy to measure or guess market response. Certain oligopolistic industries, such as steel and paper, have firms selling goods with similar price points. There could be minor upward or downward price deviations though. Smaller firms usually follow market leaders and alter prices based on bigger company pricing, or how well the market responds to their offerings.

##### **'BID PRICING'**

The price a buyer is willing to pay for a security. This is one part of the bid with the other being the bid size, which details the amount of shares the investor is willing to purchase at the bid price. The opposite of the bid is the ask price, which is the price a seller is looking to get for his or her shares.

A bid price is the highest price that a buyer (i.e., bidder) is willing to pay for a good. It is usually referred to simply as the "bid."

In bid and ask, the bid price stands in contrast to the ask price or "offer", and the difference between the two is called the bid/ask spread.

An unsolicited bid or purchase offer is when a person or company receives a bid even though they are not looking to sell. A bidding war is said to occur when a large number of bids are placed in rapid succession by two or more entities,

especially when the price paid is much greater than the ask price, or greater than the first bid in the case of unsolicited bidding.

In the context of stock trading on a stock exchange, the bid price is the highest price a buyer of a stock is willing to pay for a share of that given stock. The bid price displayed in most quote services is the highest bid price in the market. The ask or offer price on the other hand is the lowest price a seller of a particular stock is willing to sell a share of that given stock. The ask or offer price displayed is the lowest ask/offer price in the market (Stock market).

The bid price is the highest price that a prospective buyer is willing to pay for a specific security. The "ask price," is the lowest price acceptable to a prospective seller of the same security. The highest bid and lowest offer are quoted on most major exchanges, and the difference between the two prices is called the "bid-ask spread."

### **Rate of return pricing**

Target rate of return pricing is a pricing method used almost exclusively by market leaders or monopolists. You start with a rate of return objective, like 5% of invested capital, or 10% of sales revenue. Then you arrange your price structure so as to achieve these target rates of return. For example, assume a firm invests \$100 million in order to produce and market designer snowflakes, and they estimate that with demand for designer snowflakes being what it is, they can sell 2 million flakes per year.

Further, from preliminary production data they know that at that level of output their average total cost (ATC) is \$50 per flake. Total annual costs would be \$100 million (2 million units at \$50 each). Next, management decides they want a 20% return on investment (ROI). That works out to be \$20 million (20% of a \$100 million investment). Profit margin will need to be \$10 per flake (\$20 million return over 2 million units). So the price must be set at \$60 per designer flake (\$50 costs plus \$10 profit margin). Similar calculations will determine price based on rate of return to sales revenue.

An unusual consequence of this pricing model is that to keep the target rate of return constant, the firm will have to continuously be changing its price as the level of demand changes. This can be seen in the diagram below. Based on market demand expectations, the firm estimates it will be operating at 70% capacity. Given its production function and cost structure, it knows its average total costs at that output level will be represented as point A. If its predetermined rate of return requirement is amount A, B, then it will set its price at P\*. Because profit is equal to (P-ATC)\*Q, then their total profit will be defined by area P\*, B, A, P70%.