PRICING METHODS

Based on the paper "Pricing methods" by Aurel Kenessey, Richard McKenzie et Benoît Buisson.

Topic of the paper

- ☐ The central issue of many papers of the Voorburg Group is the **pricing method**. Many pricing methods are mentioned : list prices, model pricing, hourly rates, unit value…

- ☐ Many of these terms seem common terminology but where are they "defined" ?

Topic of the paper

- Some authors use the same terminology (model pricing) but it appears that it is not exactly the same "pricing method".

- Despite using a short term, a long description is still needed to explain clearly what pricing method is actually used.

- We present **an attempt to order pricing methods**. We hope that it spurs discussion, leading ultimately to clear and shared terminology by the whole Voorburg group.

Topic of the paper

- **Pricing methods** are to be discerned from **pricing mechanisms** "the way prices come about between economic actors" (OECD-Eurostat TF)

- The choice for a pricing method is influenced by the pricing mechanism and **the nature of services** (e.g. "unique" services).

- We propose a classification of pricing methods with several criteria, not a definition of pricing methods.

The first criterion

- What is the object of measurement ?
  - Real transactions
  - A model transaction held constant
  - Output components
  - Hourly charge-out rate
  - Input component
  - Unclear

The second criterion

- What is the meaning to the respondent of the data that are used as price information ?
  - Real transaction prices
  - List prices ("exact correspondence" with transaction prices)
  - List or tender prices ("approximate correspondence" with transaction prices)
  - Company data that are not output prices (no correspondence with any one single transaction prices)
  - An estimate by an expert ("fictitious information")

Terminology of the OECD/Eurostat TF

		Object (target) of measurement				
		Real transaction	Model transaction	Output components	Hourly charge-out rates	Input components
Meaning to the respon-dent of the data sur-veyed	Real transaction prices	*Direct use of prices of repeated services*		*Compo-nent pricing*	*Pricing based on working time*	
	List prices equal to transaction prices					
	List prices not equal to transaction prices		*Model pricing*			
	Turnover and amount sold		*Unit values*			
	Input with mark-up		*Model pricing*			
	Percentages fees		*Percentage fees*			
	An expert estimate		*Model pricing*			

The matrix

		Object (target) of measurement				
		Real transaction	**Model transaction**	**Output components**	**Hourly charge-out rates**	**Input components**
Meaning to the respon-dent of the data sur-veyed	**Real transaction prices**	Scanner data, contract pricing	(Real prices in model)	Subscription for telephony	*Truly paid hourly charge-out rates*	(True hourly wages)
	List prices equal to transaction prices	Postage stamp		Fuel surcharge in road haulage	*Standard hourly charge-out rates*	Diesel fuel in transport
	List prices not equal to transaction prices		List prices in model	Standard price per mile		Prefab parts in construction
	Turnover and amount sold	(Perfectly homogenous U-V)	U- V's in model	U-V for telecom	*Realised hourly charge-out rates*	
	Input with mark-up		Wage * Mark-up in model		*Hourly wage * mark-up*	
	Percentages fees		%-age fee in model	FISIM part of a loan		
	An expert estimate		Expert estimates total project prices			

Other criteria

- ☐ How long is delivery compared to the length of the survey period ?

- ☐ At what moment compared to delivery does a price enter the index ?

- ☐ How many real transactions are covered in one piece of price information ?

Conclusions

- ☐ Pricing methods can differ on a number of relatively unrelated criteria.

- ☐ The pricing method has to be specified on each criterion.

- ☐ Many common terms ("charge-out rate") delimit a pricing method on only one criterion, leaving many details of the method unspecified.

Discussion

☐ Content of our approach ?

(Are the criteria right ? Are they meaningful ?)

☐ What we can do with a systematic view of pricing method ?

- ■ Impact for mini-presentation papers and principal papers ?
- ■ Useful for the OECD inventory of SPPI's ?

☐ Extension to nature of services and pricing mechanisms