PRICING METHODS

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

<table>
<thead>
<tr>
<th>Meaning to the respondent of the data surveyed</th>
<th>Real transaction</th>
<th>Model transaction</th>
<th>Output components</th>
<th>Hourly charge-out rates</th>
<th>Input components</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real transaction prices</td>
<td>Direct use of prices of repeated services</td>
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<tr>
<td>List prices equal to transaction prices</td>
<td></td>
<td>Component pricing</td>
<td>Pricing based on working time</td>
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<tr>
<td>List prices not equal to transaction prices</td>
<td>Model pricing</td>
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<tr>
<td>Turnover and amount sold</td>
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<tr>
<td>Input with mark-up</td>
<td>Model pricing</td>
<td></td>
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<tr>
<td>Percentages fees</td>
<td>Percentage fees</td>
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<tr>
<td>An expert estimate</td>
<td>Model pricing</td>
<td></td>
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</tbody>
</table>
### The matrix

<table>
<thead>
<tr>
<th>Meaning to the respondent of the data surveyed</th>
<th>Real transaction</th>
<th>Model transaction</th>
<th>Output components</th>
<th>Hourly charge-out rates</th>
<th>Input components</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real transaction prices</td>
<td>Scanner data, contract pricing</td>
<td>(Real prices in model)</td>
<td>Subscription for telephony</td>
<td>Truly paid hourly charge-out rates</td>
<td>(True hourly wages)</td>
</tr>
<tr>
<td>List prices equal to transaction prices</td>
<td>Postage stamp</td>
<td>Fuel surcharge in road haulage</td>
<td>Standard hourly charge-out rates</td>
<td>Diesel fuel in transport</td>
<td></td>
</tr>
<tr>
<td>List prices not equal to transaction prices</td>
<td>List prices in model</td>
<td>Standard price per mile</td>
<td></td>
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</tr>
<tr>
<td>Turnover and amount sold</td>
<td>(Perfectly homogenous U-V)</td>
<td>U-V’s in model</td>
<td>U-V for telecom</td>
<td>Realised hourly charge-out rates</td>
<td></td>
</tr>
<tr>
<td>Input with mark-up</td>
<td>Wage * Mark-up in model</td>
<td></td>
<td>Hourly wage * mark-up</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percentages fees</td>
<td>%-age fee in model</td>
<td>FISIM part of a loan</td>
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</tr>
<tr>
<td>An expert estimate</td>
<td>Expert estimates total project prices</td>
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</tbody>
</table>

### Object (target) of measurement
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