Writing about car pricing methods

Correct Pricing is a Necessary Condition for a Car’s Success in the Market

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In recent days, the discussion about the officially announced price of one of the new products of a private automobile company has become very high. This issue led us to discuss the importance of pricing and also the scientific methods of pricing a car in the target market in an article. In the old marketing principles, the analysis of a product for sale to the market revolves around the concept of 4P, which are respectively related to product, price, place, and promotion. In the meantime, the three Ps related to the product, price, and promotion sales incentives are closely related to each other, and the place of supply also plays the role of an intervening variable in the success or failure of the product. With this introduction, we will examine the methods of pricing the sale of a product.

In the traditional method, the cost price of a product is determined by calculating current costs and fixed and overhead costs in such a way that a certain number is added as the producer’s profit to the total production costs of a car. This method, which has long been obsolete in global companies, is unfortunately still used in many of our companies. The reason for the continued use of this method in our market is the lack of competition in the market and the lack of competition over cost and sales prices. In fact, this method prevents the automaker from underestimating the role of fixed costs and overhead costs in the cost price of the car. Because if it had to compete in real competition to sell a car, it could not add a certain percentage of profit, for example, twenty or thirty percent, to the cost price of a car and then market that car in this way. If there was competition, the automaker would have had to work hard to reduce the role of fixed and overhead costs and use modern management methods, increased productivity, and appropriate financial models to reduce the role of these costs in car production.

The second method of pricing a product is to compare it with competitors. In this method, the main competitor or a basket of competitors is considered as a sample, and the product specifications and options are compared head to head with the competitor or competitors. An attempt is made to calculate the differences in the technical specifications and options of the product in question with the competitors and to reach a reasonable and competitive price so that the product can enter the market at a competitive price. For example, for an option such as each pair of airbags, an additional figure equivalent to one thousand or one thousand five hundred dollars is considered. Now, if our product has six airbags and the competitor’s product has two airbags, an additional figure equivalent to three thousand dollars is considered for two pairs of airbags, and this price is calculated in the final figure of the car’s price. On the other hand, for example, if the competitor had a more powerful engine, a certain amount is considered for that more powerful engine and the final price of our product is reduced until finally our new product enters the market at a price Competitive in comparison with competitors. The problem with this method is that it does not take into account the psychology of the customer when making a purchase and only analyzes the price engineering in comparison with competitors. Now, the effect of a thousand-dollar option in the eyes of the customer may be much greater, and vice versa, an issue that is not considered in this method.

In the third method, which is the most accurate and practical method and is used by many automakers around the world today, comparison with competitors is made by considering the weight of each of the components affecting the price in the target market. Let me give an example in this regard. For example, the panoramic roof option costs about two thousand dollars more during production than a regular sunroof. However, in a market like Iran, the value of a car with a panoramic roof in the eyes of the customer is much higher than two thousand dollars compared to a car with a regular sunroof. As a result, if our cars have a panoramic roof, we can consider a weight of 1.5 times for this variable, meaning that instead of two thousand dollars, we can consider three thousand dollars in the final price compared to its competitor that does not have a panoramic roof. On the contrary, the value of an option such as front radar or smart cruise control in the Iranian market is less than its actual value in the eyes of the customer. As a result, for a car that has this option, a weight equivalent to 0.7 can be considered for the balance of its final price. If you pay attention to this issue, you will notice that many of these options, such as panoramic roof, 360 camera, leather upholstery, electric seats, heated seats, etc., are very important to customers in the Iranian market. So, definitely, when pricing, a weight of more than one should be considered for these options. On the other hand, some options, such as more airbags, electric steering, radar, etc., are less valuable to Iranian customers than their actual value and should be considered a weight of less than one when balancing the price of a car. Following this weighting method based on the needs and desires of the customer in the target market causes the price of a car in a specific market to be in a way that is acceptable or so-called valuable price from the customer's or final consumer's point of view. On the other hand, not following this method causes the price of a car to be high or inappropriate despite all its attractiveness in the eyes of the customer in that target market.

Using these pricing methods requires many factors, including holding a clinic to assess the opinions of the target group’s customers, sufficient and in-depth knowledge of the target market, and finally, technical and accurate knowledge of the price or cost of the options and technical specifications of a car. Therefore, people who have the ability to perform these pricing methods