

NON-LINEAR PRICING

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Sometimes we need to sell more than one unit of our good to each customer.

1. QUANTITY DISCOUNTS

The basic theory about offering quantity discounts is that it allows you to serve high-valuation and low-valuation customers. High-valuation customers signal the fact they are high-valuation customers to you by purchasing in bulk. Low-valuation customers signal that they value your product less by buying fewer units but at a high unit price.

There are some practical problems:

- There are often practical problems when it comes to managing returns, as customers may buy more units to get the discount but expect to be refunded at the average per-unit price for the units they return.
- The ideal product is something like a banana, where resellers cannot store or hoard the product and it is difficult and expensive to resell.
- There must be no realistic chance of hoarding of the product by consumers.
- The Robinson-Patman Act was explicitly designed to try and prevent firms using these kind of non-linear tariffs to benefit chain stores at the expense of ‘Mom and Pop’ stores

2. METERED PRICING

Often some form of metered pricing arrangement is preferable where the buyer purchases goods simply on the basis of usage. Variations along this theme are razor-blade models where the customer buys a low price durable (the razor) and then subsequently purchases high price consumables (the blades).

3. VALUE-BASED PRICING METRICS

With any form of pricing, the key to pricing multiple units of a good to each customer is to get the pricing metric right.

- For example, for most information services it makes sense to price ‘per download’ rather than per minute.
- It very rarely makes sense to charge per hour.

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