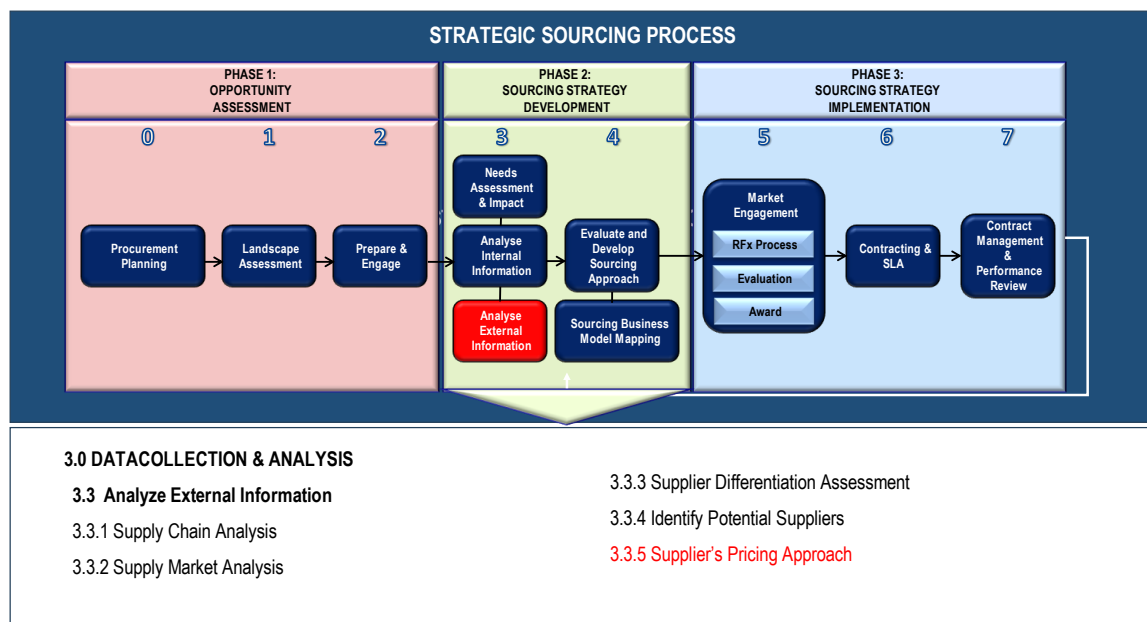


Using this guide

This guide accompanies the National Treasury's Strategic Procurement Framework (SPF) for Strategic Sourcing in the Public Sector. For more information, visit the National Treasury website at <http://ocpo.treasury.gov.za/>

The SPF can be found here: http://ocpo.treasury.gov.za/Resource_Centre/Documents/1A.%20Strategic%20Procurement%20Framework.pdf

SUPPLIERS' PRICING APPROACH**1.0 Introduction**

- i. Suppliers use different approaches to pricing, which in certain aspects may impact their ability to execute the work or seek to justify price increases.
- ii. The following good practice guides apply to understanding the suppliers' pricing approach:
 - a. Suppliers' pricing mechanisms

1.1 The objective

- i. To understand the supplier's pricing approach for the specific commodity.

1.2 Output

- i. List of pricing approaches by suppliers.

2.0 Good practice guides

2.1 Suppliers' Pricing Mechanisms

- i. Understanding the supplier pricing approach helps the procuring institution to determine the contracting approach.
- ii. The following are some of the approaches that are widely used by the suppliers.

Price approach	Characteristics	Buyer Approach
Greed pricing	<ul style="list-style-type: none"> Applies where the supplier is in a monopoly environment. The buyer has no alternative or good knowledge of the supply market 	<ul style="list-style-type: none"> Conduct cost analysis
Value pricing	<ul style="list-style-type: none"> The supplier holds power and is perceived to be offering premium products or service 	<ul style="list-style-type: none"> Conduct a value analysis
Budget pricing	<ul style="list-style-type: none"> The details of the budget can be shared with the prospective buyers as part of the tender or RFQ The budget available determines the specification and quality of the work 	<ul style="list-style-type: none"> Benchmarking Supply Market analysis
Cost-plus pricing	<ul style="list-style-type: none"> More applicable in high-value purchases where it might not be possible to establish detailed specifications at the outset 	<ul style="list-style-type: none"> Benchmarking Supply market analysis
Market pricing	<ul style="list-style-type: none"> The prices are driven by factors of supply and demand 	<ul style="list-style-type: none"> Benchmarking Supply market analysis
Target pricing	<ul style="list-style-type: none"> The buying entity has the power to dictate the pricing they are willing and able to pay. 	<ul style="list-style-type: none"> Benchmarking

Price approach	Characteristics	Buyer Approach
	<ul style="list-style-type: none"> The buy through a clear specification, has a deep knowledge of the market dynamics so that the price is seen as realistic 	<ul style="list-style-type: none"> Supply market analysis
Penetration pricing	<ul style="list-style-type: none"> A deliberate pricing strategy by the supplier to lower the price and not cover all their costs. The objective is to secure the contract and build customer loyalty to gradually increase the pricing to market prices. Normally, this is not sustainable pricing, but the supplier positions themselves as a market penetration strategy. 	<ul style="list-style-type: none"> Benchmarking Supply market analysis

Table 1 Suppliers' Pricing Mechanisms

3.0 Templates

Not applicable