



VARZA SCHOOL · THE FOUNDATIONAL 100

Pricing with Intelligence: Cost, Value, Competition, Risk, and Positioning

Chapter 68 · Track 7 — Cost, Pricing, Planning, and Management Decisions

THE QUESTION IT ANSWERS

How can a business set price without relying on cost-plus habit, competitor imitation, or a vague belief that customers will pay for value?

CONCEPTS DEFINED

Cost-based pricing · Value-based pricing · Competitive pricing · Risk-adjusted pricing · Market positioning · Contribution margin · Customer · Price list

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Varza promise: clear enough for a first-time learner, exact enough for a professional conversation, and practical enough to support a real decision.

Why this chapter matters

This track converts cost information into management choices. It separates cost behavior, traces resources to products and services, tests plans against actual performance, and shows how price and capacity decisions shape contribution and profit.

Central question: How can a business set price without relying on cost-plus habit, competitor imitation, or a vague belief that customers will pay for value?

Intelligent pricing triangulates economic floor, customer value, alternatives, positioning, risk, terms, capacity, and strategic objective. One price may not fit every segment, channel, quantity, service level, currency, or timing condition.

Varza approaches the subject from life to ledger and from ledger to decision. We begin with what actually happened, identify the rights, obligations, resources, timing, and uncertainty, and only then choose the correct term, calculation, document, or account. This order protects the learner from a common error: learning a label without understanding the economic reality that the label is supposed to describe.

Learning outcomes

- Define and distinguish cost-based pricing in plain and professional language.
- Define and distinguish value-based pricing in plain and professional language.
- Define and distinguish competitive pricing in plain and professional language.
- Define and distinguish risk-adjusted pricing in plain and professional language.
- Apply the concepts to a numerical case and explain the result rather than only calculate it.
- Identify evidence, workflow, controls, and Varza entities required for reliable use.
- Recognize when jurisdiction-specific or licensed professional advice is required.

The Varza mental model

A financial concept becomes decision-ready when six questions have answers: **what, who, when, how much, based on what evidence**, and **under which assumption or rule**. A seventh question—**what should happen next**—turns knowledge into management.

This chapter uses internationally recognized terminology, but it remains jurisdiction-neutral unless explicitly stated. Accounting standards, tax rules, contract law, consumer protection, labor requirements, and investment regulation can produce different legal outcomes in different countries. The global foundation gives the learner a stable map; local collections must add the binding rules.

Core concepts

1. Cost-based pricing

Working definition. Cost-based pricing is a method setting price by adding a markup or target return to a defined cost base.

The result depends on which cost is used and does not prove customer value or competitive acceptance. Use it as one lens, not an automatic answer. A non-specialist can understand this by separating the object, the timing, and the consequence.

Simple example. A service cost of CU 800 plus a 25% markup gives a quoted price of CU 1,000.

Decision test. Who can influence the result, and who only reports it? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

2. Value-based pricing

Working definition. Value-based pricing is a method setting price in relation to the customer's perceived or measured value rather than primarily to seller cost.

Value evidence, segmentation, alternatives, risk, credibility, and fair value-sharing matter. Value-based does not mean charge the highest imaginable amount. The concept should be measured at the smallest level that still supports a real action.

Simple example. A system that prevents CU 1 million of downtime may command more than a cost-plus fee.

Decision test. Does the item affect cash now, later, or not at all? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

3. Competitive pricing

Working definition. Competitive pricing is a method positioning price with reference to market alternatives and customer comparison.

Compare like with like: scope, quality, service, risk, payment, brand, and switching cost. Copying a competitor's number without its economics is unsafe. The number alone is not enough; its definition determines whether comparisons are valid.

Simple example. A retailer matches the market on a common item but differentiates through delivery and warranty.

Decision test. What is being measured, and what has been left outside the boundary? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

4. Risk-adjusted pricing

Working definition. Risk-adjusted pricing is the incorporation of uncertainty, credit, warranty, volatility, complexity, liability, and other risk into price or terms.

Price only risks that the seller actually bears and can explain. Some risks are better controlled, insured, shared, excluded, or declined. This is where operational activity and financial reporting meet.

Simple example. A fixed-price project includes contingency for well-defined estimate uncertainty but excludes customer-caused scope change.

Decision test. When did the underlying right, obligation, benefit, or sacrifice arise? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

5. Market positioning

Working definition. Market positioning is the intended place an offer occupies in the customer's mind relative to alternatives on value, quality, specialization, convenience, trust, and price.

Pricing, message, service, and operations must tell the same story. Premium language with unreliable delivery destroys positioning. In Varza language, the concept becomes useful when it changes a decision.

Simple example. A specialist clinic competes on expert outcomes and continuity rather than lowest price.

Decision test. Which document or observation would allow another person to verify it? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

6. Contribution margin

Working definition. Contribution margin is revenue less variable costs under a stated decision definition, representing the amount available to cover fixed costs and profit.

Contribution supports short-term volume, mix, pricing, and capacity decisions but does not mean a product is profitable after all relevant costs and constraints. The professional term matters because it prevents two different realities from being recorded as though they were the same.

Simple example. CU 100 selling price less CU 60 variable cost gives CU 40 contribution per unit.

Decision test. How would a different assumption change the result? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

7. Customer

Working definition. Customer is a person or organization that evaluates an offer, accepts commercial terms, and provides or commits consideration in exchange for value.

The user, payer, buyer, and beneficiary may be different parties. Master data and commercial design should identify each role when it affects price, tax, credit, delivery, or support. A non-specialist can understand this by separating the object, the timing, and the consequence.

Simple example. An employer may buy a health service, employees may use it, and an insurer may settle part of the invoice.

Decision test. Who can influence the result, and who only reports it? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

8. Price list

Working definition. Price list is a governed schedule of standard prices by item, service, market, customer class, currency, quantity, or effective period.

Price lists establish a reference, not necessarily the final transaction price. Discounts and exceptions should remain visible and authorized. The concept should be measured at the smallest level that still supports a real action.

Simple example. Wholesale prices may differ from retail prices and change from the first day of a new month.

Decision test. Does the item affect cash now, later, or not at all? A reliable answer should state the unit, date or period, scope, evidence, and uncertainty. When one of these is missing, the concept may still be useful for discussion, but it is not yet decision-ready information.

How the concepts connect

The concepts in this chapter are a system, not a vocabulary list. Cost-based pricing, Value-based pricing, Competitive pricing, Risk-adjusted pricing, Market positioning, Contribution margin, Customer, and Price list describe different parts of the same decision. Confusing them usually creates one of three failures: the wrong amount is measured, the right amount is assigned to the wrong period or person, or a correct report is used for a decision it was never designed to support.

A useful analysis therefore preserves both **classification** and **relationship**. Classification tells us what an item is. Relationship tells us what caused it, what it affects, and what could change it. Varza should store both. A report that shows only totals may be suitable for orientation; a controlled decision requires traceability to the underlying relationships.

Formulas and quantitative relationships

Markup price

$$\text{Price} = \text{Cost base} \times (1 + \text{Markup \%})$$

The formula adds a percentage to a defined cost base.

Boundary: Markup percentage is not the same as margin percentage and does not establish market acceptance.

Margin-based price

$\text{Price} = \text{Cost} \div (1 - \text{Target margin \%})$

The formula sets price required for a target margin on selling price.

Boundary: Cost scope, discount, tax, returns, and capacity must be consistent.

Worked case — Markup and margin are not the same

A service has relevant cost of CU 800. The team says it needs a 25% margin but quotes by adding 25% markup.

Item	Amount or observation
Cost	CU 800
25% markup price	CU 1,000
Margin at CU 1,000	$(1,000 - 800) \div 1,000 = 20\%$
Price for 25% margin	$800 \div 0.75 = \text{CU } 1,066.67$
Customer value and market	still require evidence

Calculation and reasoning

1. A 25% markup produces CU 200 profit on CU 1,000 price, which is 20% margin.
2. To achieve 25% margin on price, quote approximately CU 1,066.67 before other effects.
3. Check whether CU 800 includes all relevant delivery, channel, support, and risk cost.
4. Compare price with customer value, alternatives, positioning, capacity, and discount behavior.

What the result means

Correct arithmetic only establishes the internal floor and target. It does not prove the market should accept the price or that the offer communicates enough value.

The case is deliberately compact. In practice, Varza would preserve the supporting documents, currency, dates, counterparty, project or cost center, approvals, and links to the resulting records. The lesson is not merely to reach a number; it is to make the path to that number reviewable.

Practical workflow

1. **Define the decision, responsible person, economic unit, period, and acceptable uncertainty.**
Define the owner, required evidence, status, date, and exception route. Do not allow the next step

to erase the record of the previous one.

2. **Define offer, segment, unit, service level, terms, and strategic objective.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
3. **Calculate relevant cost, capacity consequence, and minimum acceptable economics.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
4. **Measure customer outcome and credible alternatives.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
5. **Set price architecture, test behavior, govern discounts, and review realized contribution and retention.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
6. **Reconcile the result to source evidence and investigate exceptions rather than forcing agreement.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
7. **Approve the decision or record at the authority level required by value, risk, and legal consequence.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.
8. **Monitor the outcome, compare it with the original assumption, and retain the learning for the next cycle.** Define the owner, required evidence, status, date, and exception route. Do not allow the next step to erase the record of the previous one.

How this concept should appear in Varza

The minimum Varza data model for this chapter includes offer, customer_segment, price_list, cost_floor, value_evidence, competitor_reference, risk_adjustment, discount_rule, approval, price_experiment. These names are not merely interface labels. Each entity should have a stable identifier, status history, responsible owner, applicable currency or unit, effective dates, evidence links, and access controls.

A useful Varza screen should answer four questions without forcing the user to reconstruct the story manually:

1. **What happened or is expected to happen?** Show the operational event, obligation, or decision in plain language.
2. **What changed financially?** Show cash, asset, liability, equity, income, expense, commitment, or risk effects.
3. **Why should the user trust it?** Show source documents, calculations, approvals, and revision history.

4. **What requires attention now?** Show exceptions, due dates, thresholds, and the next responsible action.

The Varza design principles most relevant here are:

- Attach every important number to a source, period, currency, entity, and responsible person.
- Prefer a traceable estimate with stated assumptions to an impressive number with hidden assumptions.
- Use automation to strengthen evidence and consistency, never to remove accountability.

Varza AI may explain, classify, compare, simulate, and prepare a proposed action. It should not silently change a legal record, post a material transaction, close a period, release a payment, or make an investment decision on the user's behalf. Material actions require visible evidence, permissions, validation rules, and an accountable human approval path.

Controls and professional boundaries

1. **Discount authority and reason codes.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
2. **No price below defined floor without explicit strategic approval.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
3. **Versioned market and value evidence.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
4. **Post-deal review of price leakage, service burden, and collection.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
5. **Stable definitions, versioned assumptions, and consistent units across plans, records, and reports.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
6. **Traceability from every material total to evidence, calculation, owner, and change history.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.
7. **Access and approval rights aligned with responsibility and the possible consequence of error or misuse.** The control should be proportionate to value and risk, documented clearly, and tested often enough to detect failure before the consequence becomes irreversible.

A control is effective only when it operates in practice. A policy that everyone can bypass is a statement of hope, not a control. Likewise, a control that blocks ordinary work without distinguishing low-risk and high-risk cases encourages hidden workarounds.

Common mistakes and better responses

Mistake 1: Adding a standard markup to an incomplete cost

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 2: Matching a competitor whose scope and economics differ

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 3: Charging based on claimed value without evidence or fair sharing

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 4: Using list price as success while uncontrolled discounts determine the real price

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 5: Using a technically correct number outside the period, entity, currency, or decision boundary for which it was calculated

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Mistake 6: Accepting an automated result without reviewing the evidence, assumptions, exceptions, and required professional judgment

Better response. Reconstruct the underlying event, state the definition being used, obtain the missing evidence, and recalculate before making a decision. Correct the process as well as the current number so the same error does not become routine.

Decision checklist

- ☐ Can I explain cost-based pricing in plain language and in professional terms?
- ☐ Can I explain value-based pricing in plain language and in professional terms?
- ☐ Can I explain competitive pricing in plain language and in professional terms?

- ☐ Can I explain risk-adjusted pricing in plain language and in professional terms?
- ☐ Have I stated the entity, currency or unit, date or period, and decision boundary?
- ☐ Can another person reproduce the number from retained evidence?
- ☐ Have I separated actuals, estimates, commitments, and scenarios?
- ☐ Have I tested timing, liquidity, risk, and at least one adverse outcome?
- ☐ Is the required approval proportional to the possible loss or legal consequence?
- ☐ Does the final output lead to a specific action, owner, and review date?

Practice lab

1. **Explain it.** Describe Cost-based pricing to a person who has never studied finance. Then add the professional definition and identify one boundary your simple explanation omitted.
2. **Classify it.** Create five examples from your household or a small business and classify each using Value-based pricing. State any assumptions.
3. **Calculate it.** Rebuild the worked case with amounts 20% higher. Identify which conclusions change and which remain structurally true.
4. **Challenge it.** Describe a situation in which Competitive pricing could be measured correctly but still lead to a poor decision because timing, risk, or incentives were ignored.
5. **Design it.** Sketch a Varza screen or report for this chapter. Include fields, evidence links, status, owner, exceptions, and one AI-assisted action.

Answer guidance

A strong answer uses consistent definitions, reveals assumptions, distinguishes fact from estimate, and connects the result to an action. More than one conclusion may be reasonable when the learner clearly states the decision objective and uncertainty. The worked-case recalculation should preserve the method even when the numbers change.

Varza AI knowledge capsule

This capsule is intentionally explicit so that a retrieval system can distinguish canonical teaching points from examples and commentary.

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  "Competitive pricing: a method positioning price with reference to market alternatives and customer comparison.",
  "Risk-adjusted pricing: the incorporation of uncertainty, credit, warranty, volatility, complexity, liability, and other risk into price or terms.",
  "Market positioning: the intended place an offer occupies in the customer's mind relative to alternatives on value, quality, specialization, convenience, trust, and price.",
  "Contribution margin: revenue less variable costs under a stated decision definition, representing the amount available to cover fixed costs and profit.",
  "Customer: a person or organization that evaluates an offer, accepts commercial terms, and provides or commits consideration in exchange for value.",
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Suggested questions for Varza AI

- Explain this chapter using an example from a household, a shop, and a service business.
- Ask me five diagnostic questions before applying this concept to my situation.
- Show the difference between cash effect, accounting effect, and decision effect.
- Recalculate the worked case using my currency and assumptions, but preserve the original definitions.
- Identify which parts require local accounting, tax, legal, labor, or investment rules.

Sources and standards horizon

This chapter is original Varza educational content. It paraphrases and synthesizes concepts; it does not reproduce a standard or third-party article. The following sources were used to establish terminology, scope, and current professional context:

- **S003 — OECD-INFE, *Core Competencies Framework on Financial Literacy for MSMEs*.** 2018; accessed 2026-08-31. Financial capability for entrepreneurs and small-business managers. Source: https://www.oecd.org/en/publications/oecd-infe-core-competencies-framework-on-financial-literacy-for-msmes_220101c9-en.html
- **S206 — AICPA and CIMA, *Global Management Accounting Principles, second edition*.** 2026-03-30. Modern management accounting, value, analysis and sustainable decision support. Source: <https://www.aicpa-cima.com/resources/download/gmap-global-accounting-principles>
- **S207 — Institute of Management Accountants, *Expanded Management Accounting Competency Framework*.** 2025. Current finance and accounting competency domains. Source: https://prodcn.imanet.org/-/media/IMA/Files/Home/Career-Resources/Competency-Framework/2025Nov17CompetencyFrameworkWhitePaper_LP_Final_PDF.ashx

Standards horizon. Reviewed through 2026-08-31. IFRS 18 and the third edition of the IFRS for SMEs Accounting Standard are included as transition knowledge where relevant; both have mandatory effective dates beginning in 2027, with early application permitted under their respective requirements.

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