

# Cost-Based Pricing vs Price-Based Costing

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A key difference between the Children’s Hospital Public Economy Model (CHPEM)<sup>1-3</sup> and the Corporate Capitalist Economic Model (CCEM) is that the former practices **Cost-Based Pricing** (CBP) whereas the latter practices **Price-Based Costing** (PBC).

## **Cost-Based Pricing (CBP):**

Cost-Based Pricing means that the price that a seller charges for a product or service is based on what it actually costs the seller to provide the product or service. For example, the price of a loaf of bread is based on what it actually costs to provide the bread. That cost includes the cost of flour and other ingredients, as well as the cost of labor and other appropriate overhead expenditures. (It does not include the cost of excessive or inappropriate expenditures, such as advertising.) A slight amount, over and above the actual cost, might be added to the price (e.g., 4%) to provide a slight cushion for the bakery, to ensure solvency and to contribute to future improvements.

The bakery’s concern is to superbly and altruistically provide a needed service and to be fiscally responsible in the process. The bakery is not concerned about “making a profit.” In fact, the leadership of the CHPEM-inspired public economy might even subsidize the bakery so that it can charge a price that is below costs for particularly healthy bread, so that all citizens can afford healthy bread. In other words, the price for pleasurable pastries might be at cost, while the price for particularly healthy bread might be slightly below costs. The same principle might apply to fruits and vegetables (as opposed to less healthy or less necessary foods) in the grocery store.

Similarly, the price that manufacturers of medical equipment and producers of pharmaceuticals charge for their products are based on the actual costs of production. The cost of an MRI machine, for example, would be based on the actual cost of manufacturing the MRI machine. The price charged for a pharmaceutical product would be based on the actual costs of providing that product. The prices charged would not be based on “whatever the market will bear” and is not boosted up in order to make a profit.

## **Price-Based Costing:**

Price-based costing (PBC) means that the price that a seller charges for a product or service is based not on what it actually costs the seller to provide the product or service, but rather on whatever the market will bear. With PBC the seller’s goal is to make a profit. The seller will

charge whatever price he/she thinks the buyer will acquiesce to paying. The cost to the buyer is based on the price the seller charges, not on the cost of providing the product---i.e., the buyer is subjected to Price-Based Costing, rather than Cost-Based Pricing.

### **Which pricing system is more altruistic; which would you prefer as a consumer---Cost-Based Pricing or Price-Based Costing?**

As already stated, with the CHPEM and its cost-based-pricing (CBP) the goal of the seller is an altruistic one---to superbly provide a needed service and to do so in an honest, fair, fiscally responsible way. “Fiscally responsible” means that the provider is appropriately managing costs by providing appropriate wages/salaries for employees and by keeping expenditures appropriate (i.e., avoiding excessive or unnecessary expenditures). With the Corporate Capitalist Economic Model (CCEM) and its price-based-costing (PBC), the primary goal of the seller is to make a profit. With PBC sellers may vary regarding how much profit they seek and how fiscally responsible they are.

Like the CHPEM-inspired collaborative network of public children’s hospitals in Canada during the Altruistic Era,<sup>1</sup> the collaborative network of public activities in the CHPEM-inspired general economy is all about serving the public, not about making profit. Hence, the practice of cost-based pricing in both. The CHPEM-inspired general public economy emulates the network of public children’s hospitals in that all of its components work collaboratively, each in its unique way, to serve the people. In contrast, the CCEM, with its price-based costing, is all about making money. The CCEM is a non-collaborative conglomeration of individual disconnected components, each component aggressively pursuing its self-interests, each component competing against other components to maximize market share and profits.

As a consumer, which would you prefer---Cost-Based Pricing or Price-Based Costing? Which is fairer? Which is more honest? Which is kinder? Which offers softness and a sense of caring? Which generates gratefulness for a society’s culture? Which offers hardness and generates a sense of alienation and resentment toward a society’s culture?

### **RELATED ARTICLES:**

The footnotes refer to the following companion articles, which are posted (or will soon be posted) on the **Notes From The Social Clinic** website: [www.notesfromthesocialclinic.org](http://www.notesfromthesocialclinic.org) These articles are listed, by title, in the Table of contents (TOC) of the website.

1. The Social Beauty of Children’s Hospitals
2. The Children’s Hospital Public Economy Model (CHPEM)

### 3. Application of the CHPEM to the General Economy