

Scientific Final Pricing Model

Storyline...

The client is Karnataka Industrial Areas Development board (KIADB), a statutory board established to promote industrial development and make available industrial infrastructure in the state of Karnataka, India. KIADB has developed more than 200 industrial estates across the state.

MaGC developed a Scientific Final Pricing Model for KIADB for fixing final prices for industrial land allotted across the state.

Once upon a time...

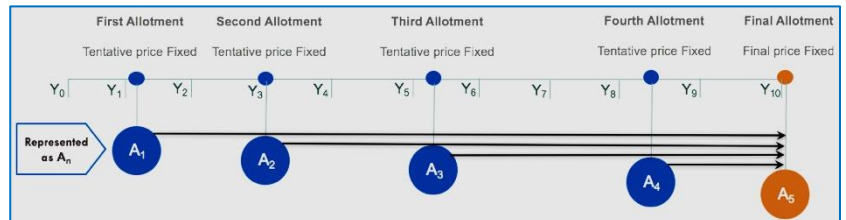
KIADB allots industrial land to interested entrepreneurs at different stages in the development lifecycle. However, it did not have a proper methodology in place for fixing final prices for the industrial land allotted. Prices were fixed on an ad-hoc basis resulting in a disadvantage either to the Board or to the allottees. The system of fixing final prices lacked transparency.

MaGC was engaged to develop a simple, rule-based pricing model for fixing final prices.

Moving on...

The MaGC team began with understanding the present system of fixing final prices. The issues with the pricing system were discussed with the KIADB Management. It turned out that final prices were being fixed without going through a well-reasoned, scientific process. This resulted in ad-hocism and lack of transparency. Further, there was no assurance that the fundamental principle of 'No-profit, no-loss' was being followed.

Research revealed that there was no single pricing model available that could be directly applied to KIADB's situation. Principles and procedures for allotting industrial land were different from one jurisdiction to another, within the country as well as internationally. Once the issues were clear, the MaGC team undertook a desk research of the practices in other Indian states. The team also visited Tamil Nadu (a neighbouring state) and interacted with the counterparts there. The study gave valuable insights into what works and what doesn't in industrial land pricing in different situations.



Based on research and inputs from stakeholders, MaGC developed as many as six alternative models for final price fixing. These models were discussed with KIADB personnel and fine-tuned. The finalized Model was one which gave weightage to market price movements as well as changes in time value of money over time. Special efforts were put to keep the Model simple to use for the KIADB staff. MaGC provided detailed instructions on applying the Model in the form of a report and further developed a simple, spreadsheet based tool for the Final Pricing Model. The Model was applied to a few sample KIADB projects to demonstrate its practical application.

Finally...

The highlight of the Model was its simplicity which was appreciated by KIADB personnel. Implementing the Model provided clarity to the final price fixation exercise. It brought about uniformity in price fixation across projects. It improved the transparency of the price fixation methodology significantly. Backed by a scientific Model, the credibility of the final prices announced improved. The MaGC study gave valuable insights to KIADB for improving related processes such as project costing, accounts closure etc.