

Pricing - strategies

There are several different pricing strategies available to a business:

Strategy	Description
Cost-plus pricing	Setting a price by adding a fixed amount or percentage to the cost of making the product
Penetration pricing	Setting a very low price to gain as many sales as possible
Price skimming	Setting a high price before other competitors come into the market
Predatory pricing	Setting a very low price to knock out all the other competition
Competitor pricing	Setting a price based on competitors prices
Price discrimination	Setting different prices for the same good, but to different markets e.g. peak and off peak mobile phone calls
Psychological pricing	Setting a price just below a large number to make it seem smaller e.g. £9.99 not £10

A new business that is entering the market might try the following strategies:

- ▶ If they are first into the market then they might use price **SKIMMING**.
- ▶ If they are trying to establish themselves in the market then **PENETRATION** pricing.

Sometimes a business may use a **loss leader**. This is a product where the price is so low that the retailer may not make any profit or even a loss on the sale, but does attract shoppers to buy other full price products. Orange juice has been used by businesses such as Rank Hovis McDougall to entice supermarkets to stock more of their other products.

Price skimming has been used for the launch of high technology products, such as DVD players and Personal Digital Assistants ("PDA's") - which were far more expensive than they are now when they first arrived in the market.

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