Pricing Strategies Practice

Instructions: Complete each section of the document. Use resources from Schoology if needed.

SECTION 1: REVIEW: Match each definition to the pricing strategy listed in the word bank.

Loss Leader	Value Based/Demand Pricing	Price Lining
Penetration Pricing	Psychological	Price Discrimination
Skimming	Bundle	

__________________ 1) When different people have to pay different prices for the same product.

__________________ 2) Pricing products so that they end in 99, 97 or 95.

__________________ 3) Pricing a product at or below the actual cost of the product.

__________________ 4) When products within a product "line" are set at different prices.

__________________ 5) Pricing a product low when it is first introduced in order to gain market share.

__________________ 6) Pricing products based on the value a consumer places on the product.

__________________ 7) Pricing a product extremely high and lowering the price over time.

__________________ 8) When products are combined and offered at a special price. This price is less expensive that if a consumer were to purchase each product separately.

SECTION 2: PRICING STRATEGY PRACTICE: Answer each question in detail.

1. Johnson and Johnson sells personal care products. Below are the prices for their most popular products. Give two examples of how you could use price bundling. Give specific prices that you would set for each example.

Shampoo \$3.89	Conditioner \$3.89	Body Wash \$2.67
Toothpaste \$3.25	Deodorant \$2.45	Hair Gel \$2.09

   a. Price Bundle Example #1:

   b. Price Bundle Example #2:

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2. Jimmy Choo is a designer who sells extremely expensive shoes. The costs for his three most popular pairs of shoes are below. If Jimmy Choo wants to make a minimum of $100 profit on each pair AND wants to use a psychological pricing strategy, at what prices may he set for each pair of shoes?
    a. Black Stilettos (cost $245) Price:
    b. Red Wedges (cost $180) Price:
    c. Riding Boots (cost $460) Price:

3. It costs Wal-Mart $0.70 to stock one 2L bottle of Pepsi. If Wal-Mart wanted to use Pepsi as a loss leader, what would be a reasonable price for the 2L bottle?
    a. Price:

    Why would a retailer want to use a product as a loss-leader?

4. You will be selling three different hoodies. Using a price-lining strategy, describe each hoodie and determine the price for each hoodie.
    a. Hoodie #1 Description & Price:
    b. Hoodie #2 Description & Price:
    c. Hoodie #3 Description & Price:

    When using a price lining strategy, what is implied as the price increases?

5. Pretend that you have decided to implement discrimination pricing for one item that your business is selling. Determine what the prices would be for that item based on each group listed below.
    a. Faculty (teachers) Price:
    b. Student Price:
    c. Staff (security, lunch room, etc) Price:
    d. Administrators (principal, superintendent, etc) Price:

    Why would a business want to use price discrimination?

    Do you think that price discrimination is a FAIR pricing strategy? Why or why not?

6. You will be opening a fast food stand. You will be selling the following products: hot dogs, french fries, hamburgers, onion rings, milkshakes, and fountain drinks. What strategies (multiple) would YOU consider using when pricing these products? Explain your response.

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SECTION 3: PROFIT MARGIN

So how much profit do real business owners actually make on their products. Below is information provided by a restaurant owner in Northern California. The first column is the cost to him and the second column is the price he charges consumers. Determine the profit in dollars for each item and the profit as a percentage (aka profit margin). Profit margin is extremely valuable to an entrepreneur because it gives a better perspective on how much profit is being earned on each item. The higher the percentage, the better.

Item	Cost to owner	Retail (menu) Price	Profit in dollars	Profit Margin (Profit divided by retail price)
Tea	$1.00	$4.00	$3.00 ($4-$1 = $3)	75% ($3/$4)
Spaghetti with tomato sauce	$6.00	$14.00		
Risotto w Seafood	$16.00	$24.00		
Broccolini	$3.00	$8.00		
Potatoes	$2.50	$8.00		
Gelato	$3.00	$8.00		
Cappuccino	$1.50	$4.00		

Answer the following questions based on the profit in dollars and profit margins that you calculated.

1. Which item has the highest profit margin?
2. Which has the lowest profit margin?
3. If an item has the highest profit margin, does that mean it also has the highest profit in dollars? Give evidence to support your answer.