

What is Pricing Strategy?

Worksheet

Pricing strategy is the systematic approach to determining product prices based on costs, market demand, customer perceived value, and competitor actions. Common methods: value-based (perceived worth), cost-plus (markup on cost), and competitive (match market rates).

Questions

1. Which pricing method ignores customer demand?
 - A) Value-based
 - B) Cost-plus
 - C) Penetration
 - D) Psychological
2. A new streaming service charges \$3/month to grab customers, planning to raise it later. Strategy name?
 - A) Value-based
 - B) Premium
 - C) Penetration
 - D) Skimming
3. Apple prices iPhones at \$999+, far above production cost. Strategy?
 - A) Cost-plus
 - B) Value-based
 - C) Competitive
 - D) Bundling
4. Which strategy requires deep knowledge of customer willingness to pay?
 - A) Cost-plus
 - B) Competitive
 - C) Value-based
 - D) Dynamic
5. A coffee shop pays \$2 per cup to make. They sell for \$5. What is their markup?
6. A smartphone brand sets price based on brand prestige (\$800) while competitors charge \$600. Name the strategy.
7. A manufacturer spends \$100 to produce a widget, adds 40% markup. What is the selling price?
8. Define: What is value-based pricing?
9. Define: Give an example of cost-plus pricing.
10. Define: What is penetration pricing?

Answer Key

1. B) Cost-plus - Cost-plus simply adds a markup to cost, regardless of how much customers want the product.
2. C) Penetration - Penetration pricing: low price now to build market share, then increase.
3. B) Value-based - Value-based: the high price reflects brand prestige and perceived quality.
4. C) Value-based - Value-based pricing demands market research into what customers perceive as fair value.
5. Cost = \$2, Price = \$5 Markup = Price - Cost = \$5 - \$2 = \$3 Markup % = $(\$3/\$2) 100 = 150\%$
6. The brand charges MORE than competitors based on perceived superior value and brand reputation. This is VALUE-BASED pricing.
7. Cost = \$100 Markup = 40% of \$100 = \$40 Price = \$100 + \$40 = \$140
8. Setting prices based on the customer's perceived value of the product, not just production cost.
9. A store buys a shirt for \$10 and adds a 100% markup to sell it for \$20.
10. Setting a low price initially to quickly gain market share, then raising it later.

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