**1.3.3 Pricing strategies**

1. Match each pricing strategy to the correct definition.

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| Pricing Strategy | Definition |
| Cost plus | A percentage is added to the total cost of production |
| Psychological | A tactic designed to make the consumer think a product is cheaper than it is |
| Skimming | Setting a high initial price when a product is launched to attract early adopters |
| Penetration | Setting a low initial price for a new product in order to get a foothold in the market |

1. A tie manufacturer produces 10 000 ties per month. Its overhead costs are £50 000 per month. Each tie costs £3.85 to manufacture. The firm uses cost plus pricing adding a 30% mark-up. What is the selling price of each tie?

Total cost = £50 000 + (10 000 x £3.85)

= £88 500

Unit cost = £88 500 / 10 000 = £8.85

Cost plus = £8.85 x 1.3 = £11.50

1. A textile company has invented a new light-weight, breathable and flexible fabric. It sells to manufacturers of quality outdoor clothing. Which one of the following pricing strategies is likely to be most appropriate?
   1. ~~Psychological~~
   2. ~~Inelastic~~
   3. **Price skimming**
   4. ~~Price penetration~~

Explanation:

The textile company will want to recoup the cost of research and development involved in inventing the new fabric. Therefore they are likely to use price skimming, charging a high price attracting those customers who are willing to pay it to be the first with this new fabric.