

## 12.14: Loss Leader

### Learning Objectives

- Define loss leader

A **loss leader** (also **leader**) is a pricing strategy where a product is sold at a price at or below its market cost to stimulate other sales of more profitable goods or services. “Loss lead” describes the concept that an item is offered for sale at a reduced price and is intended to “lead” to the subsequent sale of other services or items, the sales of which will be made in greater numbers, or greater profits, or both. The retailer tries to maintain a current analysis of its margins for both the loss lead and the associated items, so it can monitor how well the scheme is doing, as quickly as possible, thereby never suffering an overall net loss.

Examples of the use of loss leaders would be the sale of diapers at toy store chains hoping that parents and/or kids will be enticed to include toys in the purchase. Large home improvement stores will offer larger tools such as drills as a loss leader while enjoying high markups on associated products such as drill bits, cases and stands. And in telecommunication company consumer stores, smart phones will be offered at highly discounted prices in order to sell monthly services, cases, chargers and headphones.

Loss leaders are somewhat effective in generating revenue on the leader and increased action on the associated products, but overall the use of loss leaders is not a sustainable strategy for long-term business success. However, loss leaders can be an effective tool in achieving short-term business objectives like increasing market share, penetrating a new market or geography, and inflicting hurt on a competitor.

### Practice Questions

<https://assessments.lumenlearning.co...sessments/9284>

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