

12.25: Pricing Strategies

Learning Objectives

- Match various pricing strategies with the business objective it represents

Our discussion of retail pricing strategies has so far covered some important high-level concepts. We started with the basic principles of value and markup. We then explored some common methods of pricing a retailer can employ: keystone, premium, discount, psychological, bundle, and tiered. That was followed with a discussion of how pricing is part of the overall retail mix and the 6 P's. Finally, we touched on some external factors that affect retail pricing: competition, channel and geography. Clearly being a retailer is not for the faint of heart!

Given all of these considerations, the one most important factor underlying a retailers' pricing strategy is the high-level business objective being supported.

A common business objective for a retailer would be to **grow revenue**. To accomplish this objective, a retail business would create a comprehensive strategy across all dimensions of the company. Such an overarching strategy would include a review of current competition strength and weakness, current channel performance, sales results by geography, product mix performance, promotion history, review of results of current pricing methods, and much more. As the retail business looks for improvement across all of the various areas, the pricing strategy would play a large role in attaining a goal of increasing revenue.

Certainly to grow revenue you would expect that the retailer would become more aggressive in their overall pricing, perhaps through promotion or establishing everyday value, bundled or tiered pricing on important categories (Key Value Categories or KVCs) and items (Key Value Items or KVIs) in the assortment. We will talk about KVCs and KVIs later in this module.

Pricing strategy would be an important component to support the retail business objective of **increasing profit**. As the retailer develops their overall strategy to achieve this goal, you can imagine that the pricing strategy would focus on raising margins through premium pricing and less aggressive promotion. This is not as simple as this brief discussion would imply—a retailer cannot simply raise prices across the board arbitrarily and expect good results. Product assortments would have to be modified by adding more high-value or exclusive merchandise. Assortments of the high-value categories would have to be deepened so that the retailer could feel confident that their assortment dominance earns the right to higher markups.

Another common retail business objective would be **penetration into a new market area**. There are several possible pricing strategies that could be employed to support this business objective. For one, a retailer could distribute their existing product assortment into the new market and promote it heavily- taking a temporary hit on margins in order to establish their business in the new geography. Another pricing strategy that has been used in this situation is the adding of “loss leaders” temporarily to the product mix and pricing them at discount levels. In this scenario it would not be uncommon to expect vendors to assist the retailer with special buys on select products in order for both retailer and vendor to expand their presence in a new geography.

These are just a few examples of how various retail pricing strategies could support overall retail business objectives. Given all of the principles, methods, and factors of retail pricing we have discussed so far, the bottom line is there must be congruence between pricing strategy and the needs of the business for the retailer to succeed.

Practice Questions

<https://assessments.lumenlearning.co...sessments/9273>

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