

## 12.21: Retail Pricing Strategies

### Learning Objectives

- Differentiate between basic retail pricing strategies

As we stated earlier, there are a large number of retail pricing strategies and methods. We will discuss a number of them in this section.

One major common denominator that runs through all of the pricing decisions made by retailers is the concept of “markup”. Markup is simply the difference between the cost of the product to the retailer and the price at which the product is sold by the retailer divided again by the retail price. It is usually expressed as a percentage figure, so the calculation is made like this:

$$\text{*Retail price minus cost price divided by retail price*}$$

So if your item cost is \$4.00 and you sell it for \$10.00, you would calculate markup as:

$$(\$10.00 - \$4.00 = \$6.00) / \$10.00 = .6 \text{ or } 60\%$$

Markup is a concept that every retailer understands and factors in consideration somewhere in every pricing strategy.

One of the most traditional retail pricing methods is called **keystone** pricing. Keystone pricing is simply the retailer doubling the cost amount to arrive at a 50% markup. For example, if an item costs a retailer \$3.00 to buy, the retailer will set the price at \$6.00.

**Premium** pricing is another retail pricing strategy. In this method, the retailer takes a larger markup on a product in order to establish higher perceived value for that product. For example, a new designer brand being introduced by a department store might see 70%- 80% markup levels initially (especially if the store has an exclusive arrangement with the vendor so no competitors have the same products).

**Discount** pricing is a prevalent retail pricing strategy. Retailers such as Kmart, Target, Wal-Mart and others pioneered this method, setting their sights on moderate-priced competitors and setting prices below them. Retailers can expect markups to drop below 20% and even lower depending on the product category. The latest wave of discount retailers have simplified the discount strategy even further by featuring entire stores with goods all priced at \$1.00 or even 99 cents.

**Psychological** pricing refers to taking advantage of human perception to convince customers of a more attractive price. For example, instead of placing a price tag of \$200 on an electronic product, a retailer may mark the item at \$199. Or a dress shirt may be marked at \$29.99 instead of \$30. Although it is a small difference in price, it is believed that people pay more attention to the first number in the price.



Another common retail pricing strategy is **bundle** pricing. This term refers to grouping multiple items and pricing them together. There are many variations of this strategy as well. “Two for” pricing (2 for \$10), “BOGO” (Buy One Get One Free), “Get 50% OFF the Second Item”, etc.

The last retail pricing strategy we will discuss in this section is **tiered** pricing. Tiered pricing is the practice of establishing set price-points within a product category and marking all the products in that category at those price-points. For example, men’s ties from different manufactures could be priced at \$11, \$12, \$16, \$18, \$22 or \$25 depending on their different costs. In a tiered pricing scenario, a retailer may offer these ties at \$10, \$15 and \$20 to simplify their price structure.

### Practice Questions

<https://assessments.lumenlearning.co...essments/9270>

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