

Unit 5 – The Marketing Plan

Pricing strategies in business

Instructions and answers for Teachers

These instructions should accompany the OCR resource 'Pricing strategies in business' which supports the OCR Level 2 Cambridge Technicals in Business Unit 5 – The Marketing Plan.

OCR Business Level 2				
Task				
Technique	Definition	Example	Advantage	Disadvantage
Cost Plus Pricing	Businesses add a percentage onto the actual cost of producing the product/service which will be PROFIT for the business.			
Penetration Pricing	A business will introduce a product/service at a lower price than the normal price to attract customers.			
Competition Pricing	A business will charge a similar price to its immediate competitors.			
Price Skimming	This is when a business will have a unique product and be able to charge a high price for an amount of time.			
Promotional Pricing	A business will offer a product/service for a special time/season.			

Associated Files:
Pricing strategies in business

Expected Duration:
Task – approx. 30 minutes

Businesses use a variety of different pricing techniques in order to encourage consumers to purchase products and services which in turn will increase the business profits.

Task

Complete the table on the following pages by providing an example for each pricing strategy, along with an advantage and disadvantage for each.



Task

Technique	Definition	Example	Advantage	Disadvantage
Cost Plus Pricing	Businesses add a percentage onto the actual cost of producing the product/service which will be PROFIT for the business.	Cost of producing product is £1.00. The business adds 50% on to the product making it £1.50 so they will make 50% profit eg 50p on the sale of each product.	The business will definitely make some profit on every product/service sold.	There is no guarantee that the products will sell to consumers.
Penetration Pricing	A business will introduce a product/service at a lower price than the normal price to attract customers.	Aero Mint biscuit bar was first introduced at 99p for 5 instead of £1.50.	The company will hope that consumers will be attracted to purchase the product/service due to its quality, taste etc and continue to purchase once the price is increased.	The special offer prices can only last for a limited time before the business has to increase its prices to ensure profit is made.
Competition Pricing	A business will charge a similar price to its immediate competitors.	A supermarket may decrease the price of petrol and then the other supermarkets in direct competition may copy.	The prices mean that the business will remain competitive to the competition.	The profits of the business will decrease for a period of time whilst this competition pricing takes place.
Price Skimming	This is when a business will have a unique product and be able to charge a high price for an amount of time.	When the iphone was introduced, Apple were the market leaders so could charge what they wanted.	Ensures that high profits are made whilst competitors try to compete.	It will only last whilst there is no other competition from other companies.
Promotional Pricing	A business will offer a product/service for a special limited time.	A shop may offer cheaper products/services at the end of a season.	By offering a promotion, the business would be able to ensure that the excess stock left over from a season would be sold even at a reduced price.	Businesses use this for a limited amount of time.

