**Business
Week 23: Pricing Strategies**

**Handout 1: Introduction to Pricing Strategies**

**Objective:**

* Understand different pricing strategies and how they impact profitability.

**1. What is Pricing Strategy (定价策略)?**

A **pricing strategy** is how a business sets the price of its products or services. The right pricing strategy can help a business attract customers, compete in the market, and maximize profits.

**2. Types of Pricing Strategies**

**1. Cost-Based Pricing (成本定价)**

**Definition:**
Cost-based pricing is setting the price based on the cost of producing or acquiring a product, plus a profit margin.

**Formula:**
*Price = Cost + Desired Profit Margin*

* **Example:**
	+ If it costs $10 to make a t-shirt, and the company wants a $5 profit, the selling price will be $15.

**Advantages:**

* Simple and easy to calculate.
* Ensures the business covers its costs.

**Disadvantages:**

* Doesn’t consider customer demand or competitor prices.
* May lead to overpricing or underpricing.

**2. Value-Based Pricing (价值定价)**

**Definition:**
Value-based pricing is setting a price based on the perceived value of the product or service to the customer, rather than the actual cost of production.

**Formula:**
*Price = Customer Perceived Value*

* **Example:**
	+ A luxury watch company prices its products based on the value customers place on the brand and quality, rather than just the cost of materials.

**Advantages:**

* Can lead to higher prices and more profits.
* Focuses on the customer’s perspective, not just cost.

**Disadvantages:**

* Hard to determine the correct perceived value.
* Requires a deep understanding of customer behavior.

**3. Competitive Pricing (竞争定价)**

**Definition:**
Competitive pricing is setting the price based on what competitors charge for similar products or services.

**Example:**

* If a competitor sells a similar product for $20, a business might price its product slightly lower to attract customers or match the competitor’s price to remain competitive.

**Advantages:**

* Helps businesses stay competitive in the market.
* Simple to implement.

**Disadvantages:**

* Can lead to price wars and reduced profits.
* Might not reflect the true value of the product.

**3. Activity: Price Your Product (20-25 min)**

**Task:**
For your business, apply one of the pricing strategies to set a price for one of your items.

1. Calculate the price using **cost-based pricing**, **value-based pricing**, and **competitive pricing**. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Discuss why you chose each strategy and how it impacts the product’s profitability.

**Guiding Questions:**

* What is the cost to produce your product?
* What is your product’s perceived value in the market?
* How do your competitors price similar products?

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**4. Homework:**

Choose a product you use regularly (e.g., a phone or coffee).

1. Determine the pricing strategy that the company uses for this product.
2. Write a short paragraph explaining how the pricing strategy affects the company’s profitability.
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**Handout 2: Impact of Pricing Strategies on Profitability**

**Objective:**

* Learn how different pricing strategies can impact the overall profitability of a business.

**1. The Role of Pricing in Profitability (定价对盈利的作用)**

**How Pricing Affects Profitability:**
Pricing has a direct effect on a business’s **profit margins (利润率)** and **sales volume (销售量)**. If prices are too high, it might scare customers away; if prices are too low, the business might not make enough profit to cover its costs.

**2. Calculating Profit Based on Pricing Strategies**

When setting a price, businesses must consider both costs and sales expectations to determine profitability. Let’s look at some examples:

**Example 1: Cost-Based Pricing (成本定价)**

* Cost to produce: $10
* Desired profit margin: $5
* Price = $10 (cost) + $5 (profit) = **$15**
* If 100 units are sold: 100 x $15 = **$1,500 in revenue.**

**Example 2: Value-Based Pricing (价值定价)**

* Perceived value of product: $50
* Price = $50
* If 100 units are sold: 100 x $50 = **$5,000 in revenue.**

**Example 3: Competitive Pricing (竞争定价)**

* Competitor’s price: $20
* Price = $19 to stay competitive
* If 100 units are sold: 100 x $19 = **$1,900 in revenue.**

**3. How to Choose the Right Pricing Strategy**

1. **Cost-Based Pricing:**
Best for businesses with predictable costs and stable customer demand.
	* *Example:* A small bakery with a fixed cost for ingredients and rent.
2. **Value-Based Pricing:**
Ideal for businesses offering unique or luxury products.
	* *Example:* A designer handbag brand that customers perceive as having high value.
3. **Competitive Pricing:**
Best for businesses in competitive markets where differentiation is minimal.
	* *Example:* A mobile phone company entering a crowded market with similar phones.

**4. Activity: Compare the Impact on Profitability (20-25 min)**

**Task:**

1. For your business:
2. Set the price for an item using the three pricing strategies: **cost-based pricing**, **value-based pricing**, and **competitive pricing**.
3. Calculate the revenue and profit using these strategies, assuming 200 units sold.
4. Discuss which pricing strategy would be most effective for maximizing profitability for your chosen product.

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**Guiding Questions:**

* How does the price affect the product’s appeal to customers?
* What happens to profitability if the price is too high or too low?
* Which pricing strategy would you choose for your business, and why?

**5. Homework:**

* Research a well-known brand (e.g., Apple, Nike) and determine the pricing strategy they use for one of their products.
* Write a short report explaining how their pricing strategy affects their profitability and market positioning.

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**Summary:**

* **Cost-Based Pricing:** Focuses on covering costs and adding a profit margin.
* **Value-Based Pricing:** Focuses on the perceived value of the product to customers.
* **Competitive Pricing:** Focuses on matching or beating competitors' prices to attract customers.