8 Pricing strategies

Your business doesn't have to use one type of pricing strategy exclusively. To best meet your business goals, you can always mix and match different pricing strategies with different products or services. (You can see this in action with Tesla, which sells Model S cars at a premium price and Model 3 cars for half the cost.) You can also switch up your strategy as your sales goals, production costs, and results change.

As you start building the perfect blend of pricing strategies for your needs, consider these eight options and their unique benefits:

1. Cost-plus pricing

Cost-plus pricing is one of the simplest and most common pricing strategies that businesses use. With this method, simply add a percent-based markup to your product cost, and you'll know what to charge.

For example, if the wholesale price of a couch is $500 and a furniture store wanted to sell it at a 50% markup, they could use the formula (500 × 0.5) + 500 to arrive at their final retail price: $750.

Keystone pricing, which always doubles the product cost, is a particularly popular subcategory of this strategy.

Cost-plus pricing is an easy way for retailers—especially those with large inventories like grocery stores and department stores—to simplify and even automate their pricing. It also guarantees a profit margin that you're happy with on every sale.

However, this strategy doesn't do a great job at taking into account labor or external factors like competition. It's not the best choice for companies that sell digital products or services either.

2. Value pricing

A value pricing strategy focuses on the perceived value of your product or service, usually with external factors in mind. It asks you to consider how and how much customers will benefit from what you're offering, while taking into account less easily quantifiable factors. For example, your perceived value may be affected by:

- A recession or economic boom

- An improvement or setback in your reputation
- A change in products available to consumers

Value pricing may cause your prices and profits to fluctuate—for example, a swimsuit line carries less value in the winter—but it's still a good strategy for generating demand throughout the year. It's a highly flexible strategy that focuses on keeping customers satisfied, not just covering your cost of production.

3. Penetration pricing

When you use a penetration pricing strategy, you initially charge low prices—usually lower than your competitors—then make gradual price increases as your market share grows. This helps you launch with a high volume of sales right away.

Penetration pricing can be highly effective for startups and small businesses that are still working on growing their brand. Though it can certainly be risky, it's a great way for you to draw in shoppers who may otherwise disregard your product or service. As you gain brand recognition, trust, and a solid customer base, you can pivot to other pricing strategies that provide a higher profit.

It's vital to know that penetration pricing differs from loss leader pricing, which is illegal in many states. Whereas penetration pricing quickly increases your prices, a loss leader strategy continually uses low price points or sales to attract customers, sometimes in hopes of driving competitors out of business. This can lead to a monopoly, allowing the company using the strategy to set any prices they want.

4. Price skimming

On the flip side of penetration pricing, you can implement a price skimming strategy and launch with high prices and then lower prices over time.

Price skimming is an effective way to attract trendsetters and influencers who want to be the first to try new products and services. Doing so can get consumers excited for products, while making high-income users loyal members of your customer base.

This happens regularly in the world of smartphones. When new iPhone models first launch, they can cost nearly $1,000 because they are extremely trendy. Over time, they become more affordable for the masses, reaching people of various income levels.

Another perk of price skimming is that you'll more quickly earn back your production costs instead of taking an initial loss.

Price skimming doesn’t work as well for companies offering professional services, such as accounting firms and business consultancies, since they’re not as heavily demand-driven. Subscription-based companies like meal kit services and SaaS brands may also have a hard time employing this strategy since high starting prices don’t encourage users to make long-term recurring payments.

However, price skimming can work well in industries that rely on trends, like technology and fashion, or those with particularly high production costs, such as pharmaceuticals.

5. Bundle pricing

Using a bundle pricing method means selling customers two or more products or services for a lower cost than if they were to buy them separately. For example, if an online store sells dog food for $20 and a dog food bowl for $10, they could offer both for $25 instead of $30.

Whether you're bundling hotel rooms, flights, and car rentals like Expedia, or bundling haircuts and styling like your favorite salon, this is an effective pricing strategy that makes customers feel like they're getting more for what they're paying. With bundles, your shoppers are likely to spend more each time they visit.

6. Premium pricing

When your target audience is predominantly affluent shoppers, charging higher prices—without a plan to lower them significantly—can make your brand more attractive. A premium pricing strategy is all about charging more than your competition as a way to stand out.

Premium pricing can provide a sense of luxury, and it can enforce the idea that you're a brand name, while creating a perception that you have the best quality products to offer. For example, when shopping for peanut butter, many customers pay a dollar or two more just to buy Jif or Skippy. Likewise, consumers will pay more for brands like Tylenol and Advil, even though all their FDA-approved generic counterparts work exactly the same.

This pricing model only works if you know your customers won't shy away from high prices, but it can quickly help your perceived value soar.

7. Competitive pricing

If you're mostly targeting price-sensitive customers, you may want to consider a competitive pricing strategy instead. With this strategy, you'll continue keeping prices lower than your competitors' prices. Brands like Best Buy and Target offer price match guarantees to keep their loyal customers, even when other stores have sales.

This strategy is often paired with economy pricing, in which companies focus on keeping production costs low to offer the best pricing possible.

While it won't make your brand feel exclusive in any way, competitive pricing will help you win over the customers who are seeking a reliably affordable product.

8. Psychological pricing

While a few of the methods we've described can have a big impact on the perceived value of your product or service, psychological pricing alters the perceived price. It uses the following tactics to make customers feel like they're saving more or paying less than they really are:

- Offering prices just below a whole number ($9.99 instead of $10)
- Placing an original price next to a sale price
- Launching a BOGO sale that highlights a free item instead of a 50% off sale

The most significant benefit of this method is that you can successfully set the prices you want, while also keeping customers happy. You may be able to get a thrifty customer to spend more than usual since they'll feel like they're getting a good deal.