7.4 Pricing

Name: _____ Class: _____ Date: _____ **Total: 12 marks**

KEY WORDS value-based pricing • penetration pricing

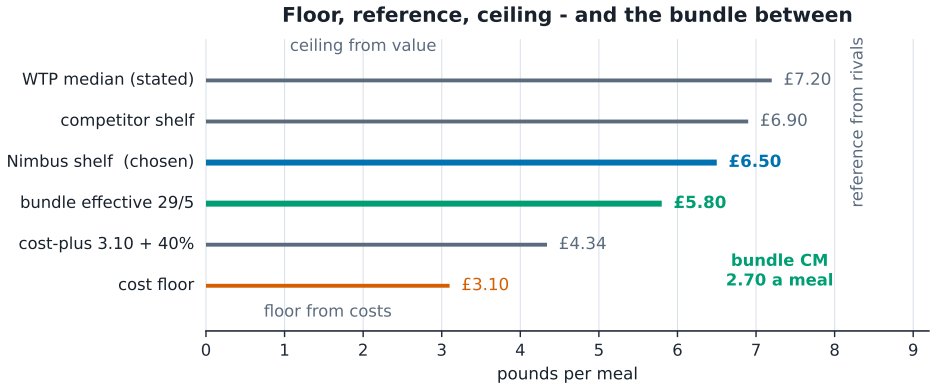
Objective

Choose pricing bases from cost, competition and value; compute bundle and penetration economics; protect the architecture with minimums and reversion dates.

1 Key knowledge and worked examples

■ Floor, reference, ceiling

Cost-plus covers and underbids; the rival sets the reference; value caps the price. The bundle trades price for commitment; penetration has a reversion date.



The bundle lives between the floor and the ceiling

■ Worked example. The Nimbus bundle

£29/5 = £5.80 effective, CM £2.70 ✓; two-meal minimum; launch £24.80 reverting in month 2, £420 of contribution spent on the cohort.

2 Practice

A coffee subscription: variable cost £0.90 a cup; shelf rival £3.40; survey WTP £3.80 median; a 20-cup monthly box at £52.

2.1 Compute the box's effective price per cup and its CM. Compare with the shelf economics (rival pays 60% of £3.40). [4]

2.2 Cost-plus at 40% suggests what cup price? In two lines, why is it wrong here? [3]

2.3 The first 200 subscribers get the box at £44. Compute the contribution deliberately spent, and state the reversion rule that makes it penetration rather than a price cut. [3]

2.4 A "3 cups for the price of 2" voucher circulates. In two lines: what protects the subscription from cherry-picking, and what happens if it is missing? [2]

Solutions

2.1

- Effective price = 52/20 = £2.60 a cup.
- CM = 2.60 − 0.90 = £1.70.
- Shelf: rival pays 3.40 × 0.6 = £2.04, CM = £1.14.
- The subscription is richer per cup AND owns the data.

2.2

- Cost-plus: 0.90 × 1.4 = £1.26.
- Leaves most of the value uncaptured and prices a premium offer as a commodity.
- The floor is the starting point, not the answer.

2.3

- Spent: 200 × 20 × (1.70 − 1.30) = £1,600 (launch CM £1.30 = 2.20 − 0.90).
- Rule: "reverts to £52 in month 2" – dated, published, and the churn at reversion is measured.

2.4

- The minimum-order and the box structure: vouchers apply to boxes, not loose cups.
- Missing them, customers assemble 2+1 deals and the box CM unravels – the Nimbus two-meal minimum principle.

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