Reading 28

BUSINESS MODELS

1. (B) offer a discount for buying a large number of units.

   Explanation

   Tiered pricing refers to setting prices based on a customer's volume of purchases.

   (Module 28.1, LOS 28.b)

2. (A) Dynamic pricing.

   Explanation

   Dynamic pricing is a pricing model where a company charges different prices based on what time of day or time of week a purchase is made. Offering the same services at different prices on busier and slower days is an example of dynamic pricing. Tiered pricing is a pricing model based on the volume of purchases; typically, the greater the volume purchased, the greater the overall price discount. Razors-and-blades is a pricing model for multiple products; typically, one product is sold at a low price and low margin, while a second complementary product is sold at a high margin.

   (Module 28.1, LOS 28.a)

3. (A) sells its products or services to other businesses.

   Explanation

   B2B businesses are those that sell their products to other businesses.

   (Module 28.1, LOS 28.b)

4. (C) add-on pricing.

   Explanation

   Add-on pricing refers to a pricing model in which a company sells its products at normal margins, but it offers additional (add-on) products to its customers at high margins. Bundling is a pricing model for multiple complementary products (like renting an apartment with furniture). Hidden revenue is a pricing model in which a product is usually free (like an app for a smartphone), but revenue is generated through advertising sales in the app.

   (Module 28.1, LOS 28.a)

5. (A) channel strategy.

   Explanation

   A channel strategy describes how a company will sell and deliver its product or service, such as selling directly to customers (direct sales) or through intermediaries such as retailers.

   (Module 28.1, LOS 28.b)

6. (C) Penetration pricing Tiered pricing

Explanation

Penetration pricing is a pricing model in which a company sells its product at a low margin or even at a loss in the product's early days to gain market entry. Tiered pricing refers to a pricing model based on the volume of purchases; typically, the greater the volume purchased, the greater the overall price discount. Freemium pricing is a pricing model in which a company offers its basic products at no cost, but it offers other related products or functionality for a fee. Dynamic pricing is a pricing model where a company charges different prices based on what time of day or time of week a purchase is made.

(Module 28.1, LOS 28.a)

7. (B) freemium.

Explanation

Freemium pricing refers to providing a basic product at no cost and selling or unlocking increased functionality for a price.

(Module 28.1, LOS 28.b)

8. (A) Hidden revenue.

Explanation

The hidden revenue pricing model is most appropriate. In this model, a company typically offers its product for free, while revenue is generated primarily through advertising revenue. Freemium pricing is a pricing model in which a company offers its basic product at no cost, but it offers other related products or functionalities for a fee. While freemium pricing is often used by video game producers, under this pricing model, a video game would be offered for free—but related products like weapons or extra life would be sold for an additional fee. Penetration pricing is a pricing model in which a company sells its product at a low margin or even at a loss in the product's early days to gain market entry.

(Module 28.1, LOS 28.a)

9. (B) Bundling.

Explanation

Bundling is a strategy in which multiple complementary products (in this case, a car, its interior fabric, and its audio system) are priced together for a more profitable strategy. Note that because the manufacturer bundled these features as part of the car's price, this strategy is different than add-on pricing, in which the manufacturer would sell the car at normal margins, but would sell upgrade options like interior fabric and a stereo system separately at high margins.

Dynamic pricing is a pricing model where a company charges different prices based on what time of day or time of week a purchase is made. Value-based pricing is a pricing strategy in which the price is set based on customers' perceived value of the product.

(Module 28.1, LOS 28.a