

## How to use: Learn, cover, write and check

## Topic 2.2.2 Price

### Key Vocabulary

**Profit margin** – profit as a percentage of the selling price; the difference between total costs and selling price

**Mass market** – a broad market segment that includes most consumers buying within a market

**Niche market** – a small sub-section of a larger market in which customers share similar needs

**Price** – what the consumers pay for the product

**Freemium** – used mainly for digital products, when something is offered for free with charges for additional features e.g. Fortnite or Roblox

### Core Knowledge

Price is what consumers pay for the product. It is essential that the price charged is appropriate for the product and for the **target market**

A business can use a variety of pricing strategies:

- **Penetration** – setting a low price to start with to enter a market
- **Skimming** – setting a high price to start to recoup research costs
- **Competition** – setting a price based on what rival products are charging

Influences on pricing strategies:

- **Technology** – consumers can compare prices easily so it is important a business is competitively priced
- **Competition** – the fewer rivals a business has, the more they are able to set their own price
- **Market segments** – the business needs to consider the income levels of their customers and how sensitive they are to price changes
- **Product life cycle** – price will change throughout the life cycle of the product

### Be aware:

- Remember that putting the price up will not always lead to more revenue and profit for a business, as some customers will not pay the extra
- Don't assume that everyone looks for the lowest price – sometimes other factors are more important

### Wider Business World

**Apple** – use price skimming when launching new products

**Supermarkets** – often sell basics at a loss to encourage customers in

### Synoptic Links

**Revenue & costs** – price affects the revenue received

**Break-even** – price rises, lower the break even point

**Competitive environment** – the more competition a business faces, the more competitive their price will need to be

**Market segmentation** – the price a business charges will need to be appropriate for the target market