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. Fortnight 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