Chapter 13 Price

Key terms

1. Cost-plus pricing: the cost of manufacturing the product plus a profit mark-up.
2. Competitive pricing: when the product is priced in line with or just below competitors' prices to try to capture more of the market.
3. Penetration pricing: when the price is set lower than the competitors' prices in order to be able to enter a new market.
4. Price skimming: where a high price is set for a new product on the market.
5. Promotional pricing: when a product is sold at a very low price for a short period of time.
6. Price elasticity of demand: a measure of the responsiveness of demand to change in price.

1. **Pricing Method and an appropriate pricing method**

Pricing Method	Explanation	Example	Advantages	Justification
Cost-plus pricing	Is the cost of manufacturing products plus profit mark-up	Single product business	Easy to calculate	If there are few competitors, it is possible for the business to set a markup price.
Competitive pricing	Is when the product is priced in line with or just below competitors' prices to try to capture more of the market.	E.g. gold	Demand is likely to be price elastic, if the business sells products at low price, they will gain higher revenue.	- Consumers may not buy at a higher price unless they think it is better quality. - Companies need to do research about competitor prices which is costly.
Penetration Pricing	Is when the price is set lower than the competitors in order to enter the new market.	Low price for a new product in a competitive market	It is likely to achieve high market share quickly.	Profit might be low.
Price skimming	Is where a high price is set for new innovation or new product in the market.	High price for newly developed products	- This can earn high profit and help to cover development costs.	

Pricing Method	Explanation	Example	Advantages	Justification
Promotional Pricing	Is when a product is sold at a very low price for a short period.	Low price to sell unwanted inventories	- Reduce stock - It can help to renew interest in a business if sales are falling	-The sale revenue will be lower because the price of each item will be low
Psychological pricing	Is an approach when particular attention is paid to the effect that the price of a product will have upon consumers' perceptions of the product.	• Setting a high price for a quality branded product • Charging 99$	-It ensures that sales are made by reinforcing consumers' perceptions of the product - It increases brand image when the price is set high	-The competitors may do the same and it reduces the effect.
Dynamic pricing	charging different consumer groups different prices for the same product.	E.g. airline	-Increase revenue and profit	-It increases in cost as prices are constantly changing.

2. **Understand the significance of price elasticity: difference between price elastic demand and price inelastic demand**

- **Price elastic of demand :** The responsiveness of demand to a change in price. Or % change in quantity demand / % change in price
- **Price-elastic demand :** the percentage change in quantity demanded is greater than the percentage change in price. (PED >1) eg. Fashion cloth, Unnecessary goods

  To raise total revenue : Business should decrease price as demand will increase by the larger proportion.

- **Price-inelastic demand :**the percentage change in quantity demanded is less than the percentage change in price. (0<PED <1) eg. necessary goods, addictive products.

  To raise total revenue : Business should increase price as demand will decrease by the smaller proportion.