Lesson 4: The marketing mix: Price

KNOWLEDGE ORGANISER

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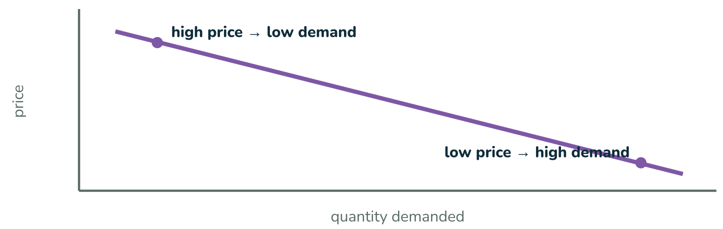
🎯 Learning goals

- ✓ Describe the main pricing methods
- ✓ Explain the factors that influence pricing
- ✓ Explain the relationship between price and demand
- ✓ Recommend a pricing method for a business

🔑 Key words

- **Price skimming** A high launch price for a new product, lowered over time.
- **Penetration pricing** A low price to enter a market, raised later.
- **Competitive pricing** Setting prices in line with competitors.
- **Loss leader** A very low price to attract customers who buy other items.
- **Cost-plus** Adding a mark-up to the cost of making the product.

📘 What you need to know



As price rises, demand usually falls — and the other way round.

1. Pricing methods

There are five pricing methods to know. **Price skimming** sets a **high price** for a new product, then lowers it later — good for innovative products with keen early buyers. **Penetration pricing** sets a **low price** to break into a market and win customers, then raises it. **Competitive pricing** sets prices **in line with rivals**. A **loss leader** is priced **very low (even below cost)** to attract customers who then buy other, profitable items. **Cost-plus** pricing adds a **mark-up** to the cost of making the product.

> *"Skimming starts high; penetration starts low; competitive matches rivals; cost-plus adds a mark-up."*

2. Factors that influence pricing

Pricing decisions depend on:

- **costs** (the price must cover them to make a profit)
- **the nature of the market** (premium or budget)
- **the degree of competition** (lots of rivals push prices down)
- **the product life cycle** (a new product may start high, an older one may be discounted)

3. Price and demand

There is a basic link between price and demand: **as price rises, demand usually falls**; as price falls, demand usually rises. So a business must balance charging more per item against selling fewer items.

✅ Test yourself

Cover the answers below, answer Q20–Q27, then check.

Q20 What is price skimming?

Q21 What is penetration pricing?

Q22 What is competitive pricing?

Q23 What is a loss leader?

Q24 What is cost-plus pricing?

Q25 Give two factors that influence pricing decisions.

Q26 What is the basic relationship between price and demand?

Q27 Give a reason a business might use price skimming.

ANSWERS

A20 Setting a high price for a new product, then lowering it over time.

A21 Setting a low price to enter a market and attract customers, then raising it later.

A22 Setting prices in line with competitors.

A23 Pricing a product very low (even below cost) to attract customers who then buy other products.

A24 Adding a mark-up (a percentage) to the cost of making the product.

A25 Costs, competition, the nature of the market, or the product life cycle.

A26 As price rises, demand usually falls (and as price falls, demand usually rises).

A27 To make high profits from a new, innovative product before competitors copy it.