



# What Determines Price?

- There are 2 things that determine the price that a firm will charge for their products:

- **Objectives of the Firm**

- If a firm wants to make as much profit as possible they will charge a high price
- If a firm wants to sell as much as possible they will charge a low price

- **The Product's Life-Cycle**

- A new product is likely to have a higher price
- The price will fall as a product matures because there will be more competing products



# Pricing Strategies

- There are a number of ways in which prices can be set
- These are called **pricing strategies**
- Options include:

- Cost-Plus Pricing
- Competition Pricing
- Penetration Pricing
- Skimming Pricing
- Promotional Pricing





# Comparing the Pricing Strategies

Strategy	Definition	Advantages	Disadvantages
<b>Cost-Plus</b>	Add % profit to the actual cost	Ensures a profit is made	May not be able to sell product!
<b>Competition</b>	Charge a price similar to competitors	Price will be competitive	Price may not be profitable
<b>Penetration</b>	Start with a low price to attract customers	Encourages people to try	Cannot last long
<b>Skimming</b>	Start with a high price for a unique product	Allows extra profits to be made	Only lasts while there is no competition
<b>Promotional</b>	Special price for a limited time	Useful to get rid of old stock	Only useful for a limited time