

What factors do businesses consider when setting a price for a new product?

- ☆ Income levels of target customers (how much they're able to pay)
- ☆ How much target customers are willing to pay for products
- ☆ The prices competitors are charging for similar products
- ☆ The amount products cost to produce

Why is it important for businesses to consider these factors before setting a price?

If businesses didn't consider what customers are able/willing to spend, then the price set could be too high – this would mean the business loses out on sales. If the product was priced a lot higher than that of the business's competitors, then it would struggle to compete. If the cost of production is not considered, businesses could end up selling a product at a loss.

Explain each advertising method used to attract/retain customers and outline why businesses may choose to use each method...

- ☆ **Leaflets** – these are small handouts given to customers in the street or posted to people (not specifically addressed to anyone). Businesses use these because they're cheap to make and can be kept by customers if needed (so they can be referred to for the business's phone number, for example).
- ☆ **Social Media** – websites/apps such as Facebook, Twitter and Instagram. These are used because they're cheap to advertise and accounts are free to create. It is possible to target adverts and specific people (ages etc.).
- ☆ **Websites** – multiple pages hosted on the Internet. Customers often visit a business's website for information about the business itself or products they sell – it's now unusual for a business to not have its own website.
- ☆ **Newspapers** – these can be either local (in one area) or national (all around the country). Advertising here can be expensive but can get a large audience. It's difficult to target at specific groups of people using this method though.
- ☆ **Magazines** – magazine advertising can also be expensive but often magazines are based on specific topics or aimed at a specific age group/gender, so this means it's easy for a business to target their advertising.
- ☆ **Radio** – Again this can be either local or national. Probably the most expensive method of the six. Adverts can grab people's attention with sound/ music, but customers can't keep any information or might miss parts.

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What is a Pricing Strategy?

A pricing strategy is a specific system used to set prices. There are lots of different pricing strategies that businesses can use, and some businesses use more than one on the same product. There are four you need to know for your exam (below). REVISE THEM!

Pricing Strategies...

Competitive Pricing is...

When a business looks at what competitors are charging when considering what price they are going to charge for their products or services. It doesn't necessarily mean they charge a lower price (though they could in order to be competitive).

Psychological Pricing is...

When businesses avoid using round numbers for their prices, instead choosing to end prices with figures like 99p. This gives the psychological impression that the products are not as expensive - £2999 instead of £3000, for example, is only £1 off, but appears cheaper.

Price Skimming is...

When businesses charge a HIGH price for a new product or service because people will be willing to pay for it as it's new and sought after. This price is then lowered over time as other products are released or the product itself becomes more common.

Price Penetration is...

When businesses charge a LOW price when a product or service is first launched and then increase the price over time. This encourages people to give the product or service a chance, with the hope that they'll buy it again. This is a way of changing customers' established buying habits.

What types of businesses/products are each of these promotion techniques best suited to? How do they help businesses attract or retain customers?

- ☆ **Discounts** – these are appropriate for all products or services. They help businesses attract customers, who will buy because of a discounted price, and can encourage repeat custom if the price is discounted again at a later date.
- ☆ **Competitions** – competitions are often used by businesses that advertise on social media. They encourage people to interact with the brand, which can attract new customers.
- ☆ **Buy one get one free (BOGOF)** – these are suited more to businesses that sell products, rather than services, and to businesses that sell products that people consume (use a lot of) – like groceries.
- ☆ **Free gifts/product trials** – these are mostly suited to new products, so that new customers can test them out.
- ☆ **Loyalty Schemes** – this promotion method is used for products that people consume a lot of or buy regularly, like coffee. These schemes are mainly used to retain customers, as their loyalty will be rewarded with discounts/freebies.

What is customer service?

Customer service is when a business provides assistance, support or advice to the people that are buying their products or services. Good customer service will mean people are happy to return, therefore retaining customers. It can also lead to a good reputation, which can help to attract new customers.

How does each of these customer service techniques help to attract/retain new customers?

- ☆ **Product Knowledge** – as more and more people buy online, businesses that offer expert knowledge can compete more with online retailers. This can attract customers.
- ☆ **Customer Engagement** – this means that the business's employees interact with customers in a polite way and makes them feel special. This can help retain customers – if they're happy with the service, they'll likely return.
- ☆ **After Sales Service** – businesses can offer guarantees on products, maintenance and servicing. All of these additional services will help attract customers but will also mean that customers return to the business.