Guide 14: Choose and test a price

Unit 2, Task 6

Your goal

Choose an initial price and explain the pricing strategy behind it. Test a pricing assumption and use the findings to make a decision.

A low price can attract interest but leave too little to cover costs. A high price can suggest quality but reduce the number of people willing to buy. Investigate both customer response and business needs.

What to produce

Record your pricing strategy and initial product price. Explain your hypothesis, test, findings, and how the findings shaped the decision.

Use your own document or paper. The comparisons and prompts below are support, not extra official requirements. Use your own currency and evidence.

Key terms

- **Cost-based pricing:** setting a price using costs and an added amount.
- **Competitive pricing:** using competitors' prices to help set your price.
- **Value-based pricing:** using customers' perceived value to help set your price.
- **Penetration pricing:** starting with a low price to attract customers and gain a place in the market.
- **Variable cost:** a cost that changes with the number of items produced or services delivered.

These strategies guide decisions; they do not give one correct price. A business may consider more than one. Customers can choose alternatives, which limits how much a business can charge.

Step 1: Gather the facts you have

Review customer research, competing offers, and early production estimates. Include relevant materials, labour, packaging, delivery, and selling fees. Separate a cost per item from a cost for the whole business.

You will develop fuller cost and financial estimates in Unit 3. For now, label incomplete estimates and identify what you still need to check. Do not treat the amount left after materials alone as final profit.

Step 2: Compare possible strategies

Ask how each strategy could fit your customer, product, costs, and competitive plan.

Cost-based pricing helps you consider costs, but customers may not accept the result. Competitive pricing gives a market reference, but competitors may have different costs or benefits. Value-based pricing needs evidence about what customers value. Penetration pricing needs a credible plan to cover costs; a later increase may cause customers to leave.

Select a strategy for further testing. Explain why it is a sensible starting point, rather than simply naming it.

Step 3: Write a pricing hypothesis

Make a prediction about a particular price and response. Decide in advance what observation would support or challenge it.

For example: “At USD 6, target customers will see the compact pouch as good value compared with the alternatives we show.” Define how you will judge “good value,” such as a choice question followed by reasons.

This example is not a required price or success target. Set a test appropriate to your project.

Step 4: Test fairly

Use a teacher-approved survey, interview, or price-choice activity. Give participants the same accurate product information. Avoid telling them the price you hope they will accept.

Ask what they would choose, what alternative they would use, and why. Include “none” where appropriate. Ask permission and keep anonymous notes. Do not require purchases, deposits, or pre-orders for this guide.

If you test simulated choices, label them clearly. A person saying “I would buy” is not a completed sale. A small sample cannot establish total demand.

Step 5: Choose a price and record the reason

Compare the actual findings with your prediction and estimated costs. You may keep the price, revise it, change a feature, or investigate further. Explain what the evidence supports and what remains uncertain.

Example: Ready Pouch

Ready Pouch is our fictional example business. Its proposed product is a small pencil pouch for students.

This is a fictional example with invented teaching figures, not real costs or evidence of demand. All amounts are in USD.

Ready Pouch considers a price of USD 6 and an estimated variable cost of USD 2 per pouch. The amount left per pouch is:

USD 6 - USD 2 = USD 4.

That USD 4 must help cover other business costs before there is profit. It is not automatically profit per pouch.

The team combines this cost check with competitor comparisons and customer price feedback. If customers reject USD 6, the team cannot solve the problem by changing the forecast alone. It must reconsider the evidence, costs, product, or target customer. The example price remains an assumption until tested.

Your turn

1. Compare plausible pricing strategies.
2. Select a strategy and initial price to investigate.
3. State a prediction and conduct a suitable test.
4. Record genuine findings and limits.
5. Explain your chosen price, costs considered, and next check.

Check your work

- I explained the strategy, not only the price.
- I considered customers, competitors, and costs.
- My test did not push participants towards agreement.
- I separated stated interest from actual purchases.
- I connected the evidence to a pricing decision.

Next: Choose a marketing channel

In Unit 2, Task 7, decide how customers will obtain your product.

Independent guidance based on the AP Business with Personal Finance CED, printed pages 165-166. This is not an official College Board resource.