Cost-Plus Pricing

The most common method, and its circular flaw.

Marketing

Why it is used

- Simple and quick to apply
- Guarantees a margin per unit sold
- Easy to explain internally
- Defensible in regulated contexts
- Works when costs dominate

Why it misleads

- Unit cost depends on the volume sold
- Volume depends on the price being set
- Ignores what customers will pay
- Ignores competitor pricing
- Prices high in a weak market, low in a strong one

THE DIFFERENCE THAT MATTERS

Cost-plus systematically underprices strong products and overprices weak ones, because it never looks at demand.

Use cost to establish the floor below which you should not sell — not as the basis for the price itself.