Pricing Decisions

Accounting & Finance

The approaches to setting a price, and when each fits.

Approach and when it fits.

Approach	Basis	Fits when
Cost-plus	Cost plus a margin	Cost is known, competition weak
Market-based	Competitor prices	Commodity or crowded market
Value-based	Customer's perceived value	Clear differentiation
Penetration	Low to win share	Entering a market
Skimming	High, falling over time	Novel product, early adopters

Cost-plus is common and circular: the unit cost depends on volume, which depends on the price you are trying to set.