



---

# How Companies Work Out Product Pricing

KS4 DESIGN & TECHNOLOGY

Ages 11-14 ⌚ 3 min read

---

## Why Pricing Matters

When you go to a shop, prices seem to be set in stone. But companies don't pick numbers out of thin air. They use clever maths and research to work out exactly how much to charge for everything from trainers to chocolate bars. Getting the price right is super important because it affects how many people buy the product and how much money the company makes.

## The Cost Formula

The first thing companies calculate is **production cost** — the money it takes to make something. This includes **raw materials** (like plastic or fabric), **labour** (workers' wages), and **factory costs** (electricity, rent). If a t-shirt costs £3 to make, the company can't sell it for £2 or they'll lose money.

Think of it like making cupcakes for a school bake sale. If flour, eggs, and icing cost you £2 per cupcake, you need to sell them for more than £2 to make a profit.

## Adding Profit and Other Costs

But production isn't everything. Companies also pay for **marketing** (advertising), **transport** (getting products to shops), **shop staff**, and **insurance**. They add all these expenses together, then add a **profit margin** — the extra money that becomes the company's earnings. Most companies aim for a **20-50% profit margin**, meaning if something costs £10 to produce and deliver, they might sell it for £15-20.

## Looking at the Competition

Companies also check what competitors charge. If everyone selling trainers charges £80, a company can't suddenly charge £200 or customers will shop elsewhere. This is called **competitive pricing**. Sometimes companies deliberately charge less to attract more customers, or charge more if their product is seen as better quality.

Think of it like lemonade stands on the same street. If one stand charges 50p and another charges £1 for the same-sized cup, most people buy from the cheaper one.

## Understanding What Customers Will Pay

Finally, companies study **demand** — how much customers actually want to buy at different prices. Some products, like luxury phones, can be expensive because people really want them. Others, like basic socks, need to be cheap because customers are very picky about price. This understanding helps companies set the **sweet spot** — a price that sells lots of products and makes good profit.

So next time you see a price tag, remember it's the result of careful calculations about costs, competition, and what people are willing to pay.