The following conditions favor setting a low price: (1) The market is highly price sensitive, and a low price stimulates market growth without cannibalizing sales of existing products; (2) production and distribution costs fall with accumulated production experience; and (3) a low price discourages actual and potential competition.

IKEA—IKEA is using market-penetration pricing to get a lock on China's surging market for home furnishings. When the Swedish home furnishings giant opened its first store in Beijing in 2002, shoppers would come in mainly to take advantage of the air-conditioning and the decorating ideas on display. Outside the store, shops were selling copies of IKEA's furniture designs at a fraction of IKEA's prices. The only way for IKEA to lure China's price-sensitive and frugal customers was to drastically slash its prices. By stocking its Chinese stores with Chinese-made products, IKEA has been able to slash prices as low as 70 percent below its own prices outside China. The move has worked. Customers are taking their low-priced goods to the check-out counters in droves, and IKEA is building its largest store in the world—aside from the flagship store in Stockholm—in Beijing. Western brands in China usually price products such as make-up and running shoes 20 percent to 30 percent higher than in their other markets, both to make up for China's high import taxes and to give their products added cachet. But with a 43 percent market share in China's homewares segment alone, IKEA is proving that it pays to buck a pricing trend.[33]

IKEA used a price penetration strategy in China to dovetail with its price-sensitive and frugal customers. This has proved to be successful.

MAXIMUM MARKET SKIMMING

Companies unveiling a new technology favor setting high prices to *maximize market skimming*. Sony is a frequent practitioner of **market-skimming pricing**, where prices start high and are slowly lowered over time.

Sony—When Sony introduced the world's first High-Definition Television (HDTV) to the Japanese market in 1990, it was priced at $43,000 so that Sony could "skim" the maximum amount of revenue from the various segments of the market. The price dropped steadily through the years—a 28-inch HDTV cost just over $6,000 in 1993 and a 40-inch HDTV cost about $1,200 in 2007.

This strategy can be fatal, however, if a worthy competitor decides to price low. When Philips, the Dutch electronics manufacturer, priced its video-disc players to make a profit on each player, Japanese competitors priced low and succeeded in building their market share rapidly, which in turn pushed down their costs substantially.