

Categorized / Guest Column, Management

Price right to succeed

Posted on 13 July 2009

By Jeffrey D. Wilke

Price is important. It is the only element of the marketing mix that produces revenue. (The other elements—product, placement, and promotion—produce costs.) It is also a powerful tool that conveys the company's image and its position within the market.

For example, price positions a company to be:

- A low-cost discount provider,
- An upscale provider with high price points, *or*
- A focused provider serving only narrow segments.



These three positions are very different. None is right; none is wrong. But whichever a company selects, it is crucial that it formulate an effective pricing strategy suitable to its business.

Pricing can be determined by using any number of strategies and tactics. However, these strategies must be in line with the company's marketing plan and objectives. Choosing a suitable strategy for your company can be a complex undertaking that requires decisions based on logical factors and an intuitive insight.

To determine a proper pricing strategy for your company:

- **Understand your business.** Understand its nature and the industry in which it operates. Is competition fierce or weak? Is the industry growing or is it saturated? What is your business model and its mission? What image do you want to establish in the market? All of these things affect pricing.
- **Understand the cost structure of your business.** You have to know your break-even point before you can determine an appropriate profit margin for pricing. Calculate your company's variable and fixed costs and use this information to determine your price floor.

- **Research.** It is essential to know the price sensitivity of your customers to determine your price ceiling. Research what your competition is doing and the trends in your industry. Consider surveying existing and potential customers. Your research will give you insights about the ability and willingness of your customers to pay for your products and services.
- **Analyze the pricing strategies of competitors.** And study the changes of supply and demand in the marketplace.
- **Identify the special value provided by your company's products and or services.** In addition, decide what image the company needs to create in the minds of its customers.

Lower prices in a recession?

During a declining economy or in a mature market, many small business owners are tempted to reduce prices. This may not be best for your business. It can lead to price wars among competitors, reduced profits, and harm to your company's image.

As an alternative, try the following tactics:

- **Try to remain neutral.** Don't overreact. Instead of reducing pricing, focus your marketing efforts on the benefits and the value of your products or services.
- **Evaluate and understand the true value that your company offers to customer.** The "true value" are the benefits your product or services give to customers. To articulate these benefits, think in terms of the problem(s) the product or service solves or the needs it addresses. Use the results of your value analysis to build pricing confidence within your company. Then communicate the value you offer to your customers. In other words, *focus on selling value instead of price.*
- **Avoid depending on discount pricing to increase sales and profits.** Instead, increase efficiencies and control costs throughout your supply chain to add greater value to your company's products and or services.
- **Avoid the follow-the-leader pricing strategy.** Always strive to differentiate your company and create a unique image in the eyes of your custom.

Remember that because of an ever-changing business environment, your pricing strategy should never remain fixed. Continually monitor your business environment and the trends in the marketplace and adjust your pricing strategy accordingly.

Jeffrey D. Wilke is owner and managing member of Easy Step Solutions, LLC, www.easystepsolutions.biz, consulting services specialized on meeting the needs of the small or start-up business owner