

Top Ten Tips on Pricing

Pricing is a key marketing tool. What you can charge ultimately depends on what your customers are willing to pay, which in turn depends on what they think- or are persuaded to think- your product is worth. However, price itself is a prime factor in people's image of your product's value. Do you want to be seen as 'upmarket', 'good value' or 'cheap'? Then you need to consider the market you are in. Can you skim the cream with an exclusive quality product or is your aspiration to achieve significant penetration of a price sensitive market?

These are some of things you need to think about.

- 1. Be a student of history-** What was this product or a similar product priced at in the past and how well did it sell? If it sold well, you can raise the price but be careful- customers don't notice small incremental rises over a period of time but they do notice a sudden big jump. If it sold badly, you may want to lower the price.
- 2. Look at your competitors-** What are others charging for a similar product? If you go cheaper, customers may think your product is inferior or, worse still, you may trigger a price war and the only winner will be the customer. If you have a quality product, go higher. Customers usually think your product must be better ('you get what you pay for') but it depends how price sensitive your market is.
- 3. Look at your market-** Is it a large market? In which case, you may want to carve out a large slice by setting a low price and being prepared to make a small profit on each unit sold. Is it a small market where quality counts? In which case you may price as high as the market will bear provided you can deliver on quality. The internet has made it increasingly possible to find and serve niche markets. Then again you may operate in a mixed market or perhaps you receive a grant in exchange for serving certain less well-off groups? In which case you may want a mix of prices, high ones for those who can pay them, and low prices or discounts for the less well off (Notice how Tesco offer high-priced 'Quality', standard and 'Value' versions of the same kind of products).
- 4. Consider your costs-** How many units will you need to sell at the proposed price or prices, given your fixed and variable costs. This needs to be considered over a period of time. For instance, you may allow for losing money while sales build up to the level where revenue exceeds costs. Alternatively, if you have a new product that's in demand, you may price high initially and drop the price as the market grows and eventually dies. Does your research suggest that you will achieve the sales you need at the price you need to charge? Will your marketing do enough to stimulate the potential sales?
- 5. Give your customers a choice** of prices based on product variations- in a theatre, this would be areas of seating, if it was car it would be the size of the engine, and so on. People like a choice of at least five different prices.
- 6. Practice Price Yield Management.** If you have a limited number of units to sell, set interim targets for sales and, each time they are reached, put the price up. This is the basic principle of the budget airlines' pricing. It encourages people to buy early and means you can maximize income from later sales. Setting those targets is a complicated matter but should be based on previous sales patterns tracked against current sales patterns to enable sales projections.

7. Introduce some **added value** that will enable you to charge well above the standard price to the 10% or whatever of your market to whom money is no object providing they get the best. This could be the 'best seat in the house' or a place at a special reception or VIP parking etc.
8. **When to have clear prices.** Face-to-face sales and advertisements may benefit from keeping the price from the customer until they are hooked. However in a catalogue or on a website, customers will simply get annoyed if they can't see all the prices (but reserve the right to alter them!)
9. **Use offers.** Early Booking Offer, Buy One Get One Free, Buy one and get a free balloon, first 500 customers get £10 off and so on. But don't give it away! Make all discounts and other offers conditional on availability. State that availability is limited. Set internal dates with targets for sales- if you achieve them, withdraw the offers. You can always re-introduce the offer later if sales slow down.
10. **If you use a distributor** or other intermediary between you and the customer, you will need to allow for giving them various forms of discount (for trade customers, bulk purchase, co-promotion, cash payment), when you are setting your prices.