

Figuring Out Price

Coaching Questions

What price is your competition at and why?

- What will you do if they change their pricing?
- Your competition has already spent a lot of time developing their pricing strategy. Don't assume that they are 100% correct, but it doesn't hurt to use it as a guideline.
- The competition already knows what their customers are willing to pay and they have a service level or quality level that meets this price. They understand the value that must be delivered in the market place.

Is your product or service comparable to the competition?

- If you are going to have a higher price than them, you need to offer more value.
- If you offer a lower price, you don't have to have the same quality or service level. It is all about relative value that the customer perceives.
- If you have the same price as them, what will convince new clients to come to you instead of them? This is all part of your business strategy.

Will this price help your business grow? How much of each sale will be reinvested into the business?

Your price needs to include a component to reinvest into your business for sales, marketing, infrastructure or innovation. Not all businesses need money for each, but it is good to have this in mind when developing your pricing.

What is your pricing strategy?

Market Penetration

When a company attempts to maximize their market share by entering with a price that is extremely competitive. This is common when a business wants to keep the competition out or when there is a mature market place with slim margins where this is required.

Example: Skype that came into the market with a low cost alternative for online telecommunications. They could have charged more, but wanted market share more than profitability upfront.

Market Skimming

This is common with a product that is new to the market, especially technology. It is created so that only people or businesses who want to get the product early and are willing to pay a higher price use it. It often doesn't have competition, which is why businesses can charge this premium. Basically the demand in the market is higher than the supply.

Example: Apple technology that launches at a higher price and older versions of the technology become discounted.

Value Pricing

When you charge when a specific target market is willing to pay. This takes into account what is in the market and how important specific features are to the consumer.

Example: A traveller's towel dries quickly and is very small. Considering it is often 1/6th the size of a normal towel, it costs the same as a full sized towel.

Other Pricing Strategies

Premium Pricing: When a product or service is charged at a higher price to create a perceived sense of prestige. Example: Gucci

Bundles: When a group of products cost less than the individual products on their own.
Example: Insurance

Optional: When base product is sold with additional features extra. Example: Hair cuts

Psychological: Selecting a specific price due to it being perceived as lower or less risky. Example: \$29.95