

Pricing strategy – don't miss a trick!

by Claire Carvall

From time to time we come across instances where businesses are not realising their full potential when setting prices. Sometimes this can mean missed revenue, in other cases it can have a negative effect on the brand – sending a mixed message of what it stands for. In either case profits can be lost. Here we take a look at the key factors to consider when reviewing your pricing strategy.

Both accounting and marketing hats need to be worn when setting a pricing policy – in essence it's a blend of science and art. A primary accounting concern may be to achieve a satisfactory margin to recover overheads. From the marketing side, positioning relative to competitors and the value customers attach to your brand can also be key.

Pricing new products or services

At launch, pricing is normally set in the context of an overall strategy. Are you looking to create a



This strategy is commonly adopted in electronics, where games consoles like the PlayStation are launched at a high price and then lowered as initial demand tapers off, reaching the next level of consumers who are prepared to pay what they perceive as an acceptable price.

Skimming also works well for organisations that do not expect cost savings by reaching high volumes of sales, or perhaps where resources are not available to finance high volume production initially.

Penetration pricing involves setting a low price to increase sales and market share. It is appropriate if you are selling a product or service which is price sensitive and can achieve large decreases



for a change of tack on pricing. Two good starting points are to review your position in the market overall and your customers' buying habits, using your own knowledge or perhaps by pulling a team together to share views.

The Market

One well-known technique that can help you quickly review your business strategy and so the pricing policy you need to follow is the Boston Matrix. Plotting against the options of "Star", "Question Mark", "Dog" or "Cash Cow", whilst sounding a bit unflattering, can give a clear picture of the pricing strategy needed to achieve your growth, market share and profit objectives from where you currently sit. To find out more, visit www.hydemarketing.com/pricing/.

Value Analysis

Over time products and services have features added to them. Greater power, increased levels of service, more convenient forms of packaging etc. These add to costs. At the same time the way your buyers use your products, or the elements of your service that they really find valuable, can change. It is not uncommon to get to the stage where what your buyer is really buying and what you are selling begin to differ.

By stepping back to focus on what it is you provide that your customers truly value, and sometimes using formal or informal research, it is often possible to remove costs which are going into your product or service for elements which the customer does not value or no longer wishes to pay for. Cutting these out may well reduce your costs. In some cases savings have enabled firms to reduce prices whilst still increasing margins, so considerably increasing profitability. Low cost airlines are a great example of this.

On the other side of the coin, just occasionally you may spot that changing circumstances mean that your product now has more value to it than you are charging for. This is often because of fashion or legislation changes. Just think of the market for bottled water. Or the mark-up on some soft drinks in pubs as drink driving enforcement has grown. In each case the value to the customer of the same product changed considerably over time.

If you would like assistance in reviewing your pricing strategy, to address financial and marketing objectives, then please contact your regular Hyde contact or call Claire Carvall on **020 7022 0054**.



new market, maximise profits or steal sales from competitors for example? Most then review price levels at least annually, taking into account the impact of costs on margins and of competitor activity on volumes.

But aside from "cost-plus", as this is known, there are a number of other pricing strategies. **Price skimming** focuses on setting an initial high price targeted at non-price sensitive customers who are prepared to pay a premium for the new product or service. The price is then slowly lowered to make the product available to a wider market. It is known as skimming as the profits are skimmed off the market layer by layer. This looks a little more at what the customer values – the first wave of customers are prepared to pay a high price for this 'new' product or service, perhaps because of exclusivity or simply because it is fashionable to be associated with it.

in costs as the volume of sales goes up.

Target return pricing looks at achieving a specific return on investment whilst premium and value based pricing are focused on the perceived and effective value to the customer.

Reviewing Existing Products and Services

While a great deal of effort normally goes into setting prices at launch, we have found that it is less common for companies to review the pricing strategy for established products or services. You should regularly ask, "What has changed in the market since we set price levels?" This may give an opportunity to significantly increase profits, rather than simply applying a percentage increase which can be justified on the basis of cost increases.

There are a number of models which can easily be used to help you identify the opportunities

If you would like to discuss appropriate pricing strategies for your business, please contact Claire Carvall on 020 7022 0054 or email clc@hydemarketing.com

