A C B

Attracting Customers Bootcamp

Week 4

Pricing

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Before we get started let's look at the outcomes from the ACB course:

- Understand what marketing is
- Understand how marketing can benefit you
- Understand your client completely
- Learn how to identify the best products or services to increase sales
- Identify the best way to promote your products
- Discover how you can give your customers the best experience
- Work out how you can stand our from your competitors
- Create a realistic and relevant marketing strategy

This week we will consider:
- Pricing Strategies
- New Product or Service Pricing
- Price increases or cuts

Introduction

Let's begin with looking at some definitions to ensure we understand the terms involved in pricing goods. All of the below definitions are from the Oxford English Dictionary.

Cost:
'an amount that has to be paid or spent to buy or obtain something'

Revenue
'income, especially when of an organisation and of a substantial nature.'

Profit
''a financial gain, especially the difference between the amount earned and the amount spent in buying, operating, or producing something.'

List your direct costs for you best selling product or service:

Labour

Materials

Fuel

Power

Packaging

Others

Total Direct Costs

List your indirect costs for you best selling product or service:

Quality Control

Marketing

Administration Expenses

Maintenance

Rent

Utilities

Office Supplies

Others

Total Indirect Cost

Using your answers previously work out the total direct cost and indirect cost of your best selling product. Estimate where needed.

Most of us are in business to make money, to earn a profit**.**

Costs

To make a profit we need to understand costs. A cost can be a combination of:

- cost of effort (time)
- cost of material
- cost of resources
- cost of utilities consumed
- cost involved in production and delivery of a service.

In other words a cost is everything involved in making your product or service.

List every cost to make your product or service.

Costs can be categorised as Direct costs or Indirect costs.

Direct Costs: The cost of producing your product or service, including labour, materials, fuel, power, packaging. It is important to make sure you include your time spent making or creating the product or service within this cost. Eventually you may employ someone else to make or create your product or service, and you will need to pay them!

Indirect Costs: The cost which cannot be directly linked to producing your goods or services but that still costs the business money. Indirect costs include: administration expenses, marketing expenses, maintenance, rent, utilities, office supplies. These are the things that you need for your business to function.

You can also have fixed and variable costs.

Variable Costs: The variable costs are the costs which changes with the change in the production. Such as raw material, wages of labor, energy used in production.

Fixed Costs: The fixed costs are the costs which remains fixed irrespective of the level of output. Such as rent, salaries of employees, advertising, and promotional campaigns.

Pricing Strategies

Once we understand our costs we can then decide how we work out the prices for our products or services.

How do you price your products or services?

There are a number of pricing strategies available, and we will look at the most common strategies here:

1. Cost plus pricing

This involves setting the price by adding a fixed amount or percentage or mark up to the cost of making or buying the product. The average retailer mark up is 2.4 in the UK

This is an old fashioned strategy and has mix reviews. This is used a lot in retail.

To work out cost plus pricing you need to work out your costs, and the percentage or mark up you wish to make. For example:

If a product costs you £100

You want to make 50% margin or a 1.5 mark up

You would charge £150

Advantages

- Selling prices are easy to calculate
- If the mark up is the same throughout the business, profits can be easy to estimate.

2. Penetration pricing

This is when you set a low initial price to attract new customers, aiming to encourage customers to switch to your product.

It does result in lower profits, however you may be able to sell larger volumes.

Advantages

- Useful for new product launches
- Useful when there is more competition and little product or service difference

3. Price Skimming

This involves setting the mutual price high when the product enters the market. This is often used where there is no competition or similar products or services. Apple often use this method when launching new products.
Price skimming cannot be used for the long term as competitors are likely to introduce a similar product. It may also slow sales and growth.

Advantages

- Creates prestige around the product
- Increases profits
- Good for completely brand new products

4. Loss Leaders

This is when you price a product at below cost price. This method is used to help increase sales, and to attract new customers.
However customers may bulk buy at the reduced cost, which will impact profits in the long term.

Advantages

- Helps drive customer loyalty in the short term

5. Psychological Pricing

This is when you create the illusion of value for the customer. One example is pricing items at '.99'. When products or services are compared, the difference of a few pennies or pounds can be a deciding factor.

Advantages

- Good strategy to use in combination with other strategies
- Works well when like for like products or services are available

6. Bundle Pricing

This is when you sell a group of products at a lower price than they would cost individually. However you must be aware of the potential impact on profits. An example is when a free eye liner is given away with a mascara.

Advantages

- Good when you can offering ancillary products or services
- Useful to get rid of unsold stock
- As something may be categorised as free this will help attract customers
- Introduces new customers to different products

7. *Premium Pricing*
This is when you set your prices higher than competitors. This is a good strategy for a luxury or new product. However you need to make sure everything to do with the product signifies luxury from the customer experience to the packaging through to the marketing messages.

Advantages
- Increase profits
- Encourage the customers perception of you as a premium and exclusive brand.

8.Price Anchoring
This is when you offer three similar products or services at three different price points to customers. The idea is that the customer will choose the lower priced product or service as they perceive these are good value.

Advantages
- Good when two or more similar products or services are available
- Good for retailers online or offline

9.Economy Pricing
This is when you price your products very low, with the intention of getting volume sales. This is perfect for no frills products or services. This method may impact your profits if sale volumes are low.

Advantages
- Perfect for no frills products or services
- Ideal to attract customers who are price conscious

10. Upside down pricing
This is when you work out the price of an item based on how many estimated sales figures and the desired total revenue.
For example:
Desired revenue £500 revenue
Predicted sales 100
Price per item £5.00
This method should be used with caution, especially if costs are not met with lower sales.

Advantages
- Good for niche products
- Useful for services

What strategies work best for your products or services?

You can mix different pricing strategies, however be careful not too mix too many strategies as this can confuse the customer and put up a barrier to selling.

Pricing New Products

When pricing new products a number of factors must be considered:
1. The target markets.
When you launch a new product you are likely to have a selection of target markets, all of whom may value the product or service differently.
You may choose to initially target those who will need the product or service the most, and who are willing to pay the most.
For example when calculators were introduced they were aimed at Engineers and Scientists who would pay the most for the product. Over time the price decreased in stages to attract bankers, and eventually the general public.

2. Promotion Methods
Consider how you will promote the new product. If you want more sales quickly, it would be worthwhile introducing the product at a low price, with lots of promotional methods. Whereas if you are happier to have fewer sales you could introduce the product or service with higher prices through lots of promotional methods.

A higher price can normally be charged if:
1. The product or service provides a great benefit
2. Your target market has the ability to pay.
3. The consumer or user is different to the bill payer. For example, if a large business is paying for something for an employee they are more likely to pay a high price. Whereas if someone is buying something for themselves they may prefer a lower price.
4. You have a lack of competition.
5. Demand is greater than supply.
6. Pressure to buy- for example prices at motorway service stations are higher than elsewhere.
7. High costs to switch products or service.

Could you set a higher price based on the above factors?

Price changes

Pricing changes in today's world, and as business owners we need to understand when we should increase or reduce prices.

Three key factors for changing prices are
- Circumstance
- Tactics
- Competitor Reaction.

Lets look at each in turn now

1. ***Circumstances***

You may increase your prices if:
- Market research shows customers place a higher value on your product or services
- Costs increase
- More demand than can be met
- Desire to increase margins

On the other hand you may decrease your prices if:
- Market research shows customers place a lower value on your product or services
- Costs decrease
- Less demand than you can meet
- Desire to decrease margins.

2. ***Tactics***

If you wish to increase your prices you could:
- Increase your product or service in price- A price jump
- Stage price increases over time.
- Stipulate in your contracts that prices may increase over time
- Separate your products- say if you charge £5 for 5 products or services, you could charge each separately at £2.
- Reduce discounts offered

If you wish to decrease your prices you could

- Decrease your product or service price- Price Fall
- Stage price reductions over time
- Stipulate in your contracts that prices may increase over time
- Introduce an alternative brand with lower price products or services
- Bundle your products
- Offer more or bigger discounts

3. Competitor Reaction

If you change your prices and your competitors do not, you could loose sales because of the cheaper alternatives or because of the perception of quality. When considering a price change research what your competitors are doing, and also put yourself in their position. What action do you think they will take?

My competitor has changed their prices, what do I do?

There is a pressure to reduce or increase prices if your competitor acts in this way.

When Prices Increase

If there is an increase in general demand, higher costs or if your customers do not worry about price it may be worthwhile increases your prices.

When Prices Fall

If there is excess supply, costs are falling or your customers are sensitive to price it may be worthwhile reducing your prices.

Note down a few circumstances which would make you increase your prices.

Ethics and Prices

There are some ethics related to pricing and I will explore these now.

The following three methods are against UK and some international rules:

Price fixing
When competitors agree to sell the same price and not compete on prices.

Predatory Pricing
When prices are reduced to remove competition.

Deceptive Pricing
When you set a price unreasonable high with the intention of selling only at the sale price or when you offer a low priced product and then tell customers only a higher priced alternative is available.

Price discrimination
When you offer one price to one customer and not another.

Product dumping
When you sell a product or service to another a country at a lower price. This may be because the product does not meet regulations in the original country.

Pricing Summary

As you can see charging the right price has an impact on your profits, and it is vital that we charge the right prices for our products or services. We can identify the right prices by considering:

- Advantages of different strategies
- What our competitors are doing
- What our customer wants

Summary

This week we have learnt all about pricing, and which tools you can use to increase your profits. Next week we will look at how to make sure your promotions are right for your ideal customer.

Don't forget to pop into the facebook group and share your thoughts, questions and ideas from the weeks module using #week4

We would love to hear your ideas and look forward to next week where we will look at everything to do with your offline promotions

Notes