How Should You Price A Product?

Idea In Short

- Pricing has a significant impact on product adoption, conversion rates and profitability
- Pricing is often an afterthought during the product development process
- Price is the exchange rate on the value the product creates

Pricing has a significant impact on product adoption, conversion rates and profitability. However, pricing is often an afterthought during the product development process. The product manager is responsible to discover and develop features customers Value and to reasonably price the product. Price is the exchange rate on the value the product creates. The most important aspect of pricing strategy is that it should sustain the business. Pricing at a loss or an unsustainable margin will deprive the business of growth and scaling opportunities. There are several established pricing strategies, such as:

1. Cost-Plus Pricing
2. Competitor-Based Pricing
3. Value-Based Pricing

Cost-Plus Pricing

With cost-plus pricing, the selling price is set by calculating all the variable costs and adding a markup. You make a product for $15 and want a 50% profit margin. So, you price it $30

Competitor-Based Pricing

Competitor-based pricing utilises competitor prices as a benchmark. This pricing is not based on company costs or customer value. If your competitor sells a product for $100, you sell it for $100

Value-Based Pricing

Value-based pricing is based on a consumers' perceived value of the offering. For example, socks sold in harsh and cold conditions means the consumer is willing to pay $8 for warm feet. Therefore, pricing requires a process, customer feedback and iteration to increase the perceived value of the product / solution offerings. What's interesting is that pricing isn't hard; it's very similar to customer development or some of other pieces and kind of your product stack where it just takes a process and it just takes some effort. Pricing requires testing and iterating to determine the 'sweet spot' i.e. the price that actually yields the best results. You should be really changing your prices, not necessarily the number but your packaging or number of different factors about your pricing every six to nine months. This seems somewhat counter-intuitive, but it's one of those things where the product is improving every 6 - 9 months, whether it's positioning, it's package, it's price, whatever it is, and your price being that reflection of value, it needs to adjust.

Summary

- The most important aspect of pricing is that it should sustain the business
- Pricing requires testing and iterating to determine the 'sweet spot'
- Pricing requires a process, customer feedback and iteration to increase the perceived value of the product