# Pricing Strategy

## Idea In Short

- Good pricing strategy helps you determine the price point at which you can maximise profits on sales of your products or services
- Pricing is one of the most vital and highly demanded component within the theory of marketing mix
- Certain pricing methods work for new products whereas other strategies are best suited for mature products

Though various factors can affect a business' revenue potential, one of the most important is the pricing strategy employed. Good pricing strategy helps you determine the price point at which you can maximise profits. While customers won't purchase goods that are priced too high; likewise, your company won't succeed if you price your offerings lower than your costs. When setting prices, you need to consider a range of factors. These include production and distribution costs, competitor offerings, positioning, target customers, etc. Here are some of the successful pricing strategies that are usually employed by businesses when pricing their products or services:

## Premium

With premium pricing, businesses set costs higher than their competitors. This strategy is often most effective during the early product life cycle, and for niche businesses with unique value propositions. In such scenarios, customers need to value on your offerings higher than your selling price. This implies you should articulate your product worth as higher than customer's willingness to pay [WTP]. Correspondingly, you must work hard on your product's value perception.

## Market Penetration

Penetration strategies aim to attract buyers by offering lower prices on goods and services.

While many companies use this tactic to distract attention away from competition, penetration pricing usually results in initial losses for the business. However, in the long run, prices can be re-adjusted to reflect the market positioning, once sufficient market penetration been achieved.

## Economy

Used by a wide range of businesses, economy pricing aims to attract the most price-conscious of consumers. With this strategy, businesses minimize the costs associated with marketing and production in order to keep product prices down. As a result, customers can purchase the products they need without frills. Selectively tailoring discounts to the most loyal customer base is a good strategy to guarantee their patronage for years to come.

## Price Skimming

Price skimming involves setting higher prices during the product / service introduction phase to help maximise sales. The price then gradually tapers as competitor goods appear on the market. Price skimming allows businesses to maximise profits on early adopters. Subsequently, lower prices attract the price-sensitive consumers. Price skimming helps recoup development costs and creates an illusion of exclusivity, especially during the product introduction stage.

## Psychology

Psychology pricing refers to techniques that marketers use to encourage customers to respond on emotional levels rather than logical ones. For example, setting the price of a watch at $199 is proven to attract more consumers than setting it at $200, even though the true difference here is quite small. One explanation for this trend is that consumers tend to put more attention on the first number on a price tag than the last. The goal of psychology pricing is to increase demand by creating an illusion of enhanced value for the consumer.

## Bundling

With bundle pricing, small businesses sell multiple products for a lower rate than consumers would face if they purchased each item individually. Bundling can also increase the value perception in the eyes of your customers, since you're essentially giving them something for

free. Bundle pricing is more effective for companies that sell complimentary products.

## Decoy

Method of pricing where the seller offers at least three products, and where two of them have a similar or equal price. The two products with the similar prices should be the most expensive ones, and one of the two should be less attractive than the other. This strategy will make people compare the options with similar prices, and as a result sales of the more attractive high-priced item will increase.

## Double ticketing

A form of deceptive pricing strategy that sells a product at the higher of two prices communicated to the consumer on, accompanying, or promoting the product.

## Captive Product Pricing

Where products have complements, companies will charge a premium price since the consumer has no choice. Pricing strategies are important, but it's also important to not lose sight of the price itself.

## Summary

- There are many factors to consider when developing your pricing strategy, both short- and long-term
- When your price, value proposition and positioning are aligned, you're in the best situation to maximize revenue and profits
- Your price sends a strong message to your market – it needs to be consistent with the value you're delivering