



## 4 PRICING MISTAKES TO AVOID

In our work we have found that the reviewing of pricing methods and strategies provide the quickest improvement to the profitability of a business. Many businesses are unknowingly giving away profit.

Price can be adjusted immediately and the effect flows straight through to your bottom line. For one of our clients a simple pricing change generated an extra \$80,000 in profits in just three months and there was no reaction from their customers.

### **Mistake 1: Price Is Too Cost Orientated**

This focuses on knowing your costs and then connecting these with your price. It is equally important to understand the value you are offering and the dynamics of your market.

Customers will pay for **perceived value**. There should be strong links between this and the selling price. The stronger the perception of value you create in the minds of your customers the greater the potential to increase your price. What makes you a better business to deal with compared with your competitors?

### **Mistake 2: Price Is Not Revised Often Enough To Reflect Market Changes**

Changes in availability or price of competitor products, availability of substitutes, sudden changes in demand, are all good reasons to review your price. Many businesses absorbed the GST because they had a bigger problem with their price than their customer. When the price is too low you lose profit. You need to identify the key indicators that have influence on your price and regularly monitor these.

### **Mistake 3: Failing To Take Into Account Other Marketing Mix Elements**

There needs to be a relationship between the perceived value of your product or service and the price you charge for it. The product design, packaging and function should all send out a strong signal that matches the price. If your image suggests high quality, customers will pay more than if your image suggests low quality. Perfume is a classic example: the more elaborate the packaging, you can be sure, the higher will be the price.

### **Mistake 4: Charging The Same Price In All Market Segments**

This is linked to failing to understand the different market segments you serve. Some segments will place a much higher value on your product or service than others, their perception of value will be determined by their need for convenience, what the product or service actually provides for them, or how important this is. Where the perception of value is high you can charge higher prices.

### **Take the Next Step**

Review your pricing strategies. If you feel you are too close to your business then invite a firm such as ours to take an independent review of your pricing system. We will help you to examine your pricing, customer relationship management strategies, objectives, and key performance indicators.