



The Pricing Strategy and its types

Introduction

Deciding how much to charge for your product requires more thought than simply calculating your costs and adding a mark-up.

“How much the customer is willing to pay for the product has very little to do with cost and has very much to do with how much they value the product or service they’re buying,” says Eric Dolansky, Associate Professor of Marketing at Brock University in St. Catharines, Ont.

Figuring out how much the customer values your product or service and pricing it accordingly is called value-based pricing. It’s a technique Dolansky believes more entrepreneurs should use.

Content table

pricing strategies

How do you arrive at a value-based price?

3 ways value-based pricing can provide an advantage

Pricing needs to match your target market

pricing strategies

Pricing a product is one of the most important aspects of your marketing strategy. Generally, pricing strategies include the following five strategies.

- 1. Cost-plus pricing—simply calculating your costs and adding a mark-up**
- 2. Competitive pricing—setting a price based on what the competition charges**

3. **Value-based pricing**—setting a price based on how much the customer believes what you're selling is worth
4. **Price skimming**—setting a high price and lowering it as the market evolves
5. **Penetration pricing**—setting a low price to enter a competitive market and raising it later

How do you arrive at a value-based price?

Dolansky provides the following advice for entrepreneurs who want to determine a value-based price.

- **Pick a product that is comparable to yours and find out what the customer pays for it.**
- **Find all of the ways that your product is different from the comparable product.**
- **Place a financial value on all of these differences, add everything that is positive about your product and subtract any negatives to come up with a potential price.**
- **Make sure the value to the customer is higher than your costs.**
- **Demonstrate to customers why the price will be acceptable, which includes talking to them.**
- **If there is an established market, the current price range will help educate you about the customers' price expectations.**

You still have to make sure the value to the customer is higher than your costs. Otherwise you will lose money with every product you sell.

Eric Dolansky

Associate Professor of Marketing, Brock University

Value-based pricing: Best for differentiated businesses

Dolansky says entrepreneurs often used cost-based pricing because it's easier. They may also copy the prices of their competitors, which, while not ideal, is a slightly better strategy.

In an ideal world, all entrepreneurs should use value-based pricing, Dolansky says. But entrepreneurs who sell a commodity-like service or product, for example warehousing or plain white t-shirts, are more likely to compete on low costs and low prices.

For entrepreneurs offering products that stand out in the market—for example artisanal goods, high-tech products or

unique services—value-based pricing will help better convey the value they offer.

3 ways value-based pricing can provide an advantage

In value-based pricing, the perceived value to the customer is primarily based on how well it's suited to the needs and wants of each customer. Dolansky says a company can gain an advantage over its competitors in the following ways.

- 1. The price is a better fit with the customer's perspective.**
- 2. Value-based pricing allows you to be more profitable, meaning you can acquire more resources and grow your business.**
- 3. When a price doesn't work, the answer isn't just to lower it, but to determine how it can better match customer value. That may mean adapting the product to better suit the market.**

Pricing needs to match your target market

To sum up, pricing is one of the most important aspects of your market strategy, which also includes promotion, placement (or distribution) and people.

"It's important when you are considering your price that you realize it is not for yourself, but for your target customers," says Dolansky.

All pricing strategies are two-edge swords. What attracts some customers will turn off others. You cannot be all things to all people. But, remember you want the customer to buy your product, which is why you must use a strategy that's appropriate to your target market.

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