

Pricing Strategies and Generalizations

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Pricing Strategies

Many entrepreneurs and business executives have asked the following question ... should we be a price leader or follower? A good basic rule is that the price leader should be the one with the least to lose. Price moves should be well thought out in advance to avoid the knee-jerk reactions that so often limit profits or share.

If your company enjoys a high market share, has a relatively high cost structure, is a market leader in product quality/reputation, and is operating at or near capacity, you should *follow prices downward*, and *lead prices upward*.

If your company has a low market share, is a low cost leader, has a lower end product, and has plenty of capacity available, you should *lead prices downward* and *follow prices upward*.

When launching new businesses or products they also ask themselves ... what should our introductory price be? If you are launching a new product or entering a new distribution channel, there are two basic pricing strategies you can follow -- a skimming pricing or penetration pricing policy.

A *skimming pricing strategy* is aimed at getting the "cream" of the market at a high price before catering to more price-sensitive segments of the market. It's a good profit-oriented pricing strategy for innovative new products with little competition. As supply meets demand at the higher price, you reduce the price, attracting new target markets, increasing your total revenue and profits.

A *penetration pricing strategies* objective is to sell the whole market at one price. This policy may be appropriate when you are entering an existing market or when substantial economies of scale reduce costs or if you expect strong competition very soon after introduction. A low penetration price may discourage large competitors from entering your market.

Pricing Generalizations

There are other price considerations for existing products and probably ones specific to your industry. Do you know what they are and when to apply them to your pricing decisions? Do any of these pricing generalizations apply to your business?

1. If you can't differentiate your product or service, you are doomed to compete on price.
2. When introducing a new product in a mature market, you cannot be far from your competitor's price.
3. The largest share of the market inevitably is determined by the best price value.
4. When selling a commodity product, a low price will guarantee entrance into the market.
5. Price is not an effective way to increase market share.
6. Price should be established on what the customer is willing to pay, not on what it costs.
7. Any unbranded product has to be sold on a price basis.
8. If you can't increase the business, increase the price.

When was the last time you reviewed your pricing policies? Your market is dynamic, ever changing. Are your pricing policies obsolete for your customer or competitive situation?

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