

MANAGEMENT OUTLOOK



VOLUME 5,
ISSUE 12

MANAGEMENT
MAGAZINE

PRODUCT PRICING STRATEGIES

Developing a pricing strategy perplexes many CEOs, marketing and sales executives, and brand managers. It's not surprising really: real businesses don't always follow the pricing strategy models that business schools and books on pricing strategy present. But there are a few basic guidelines that can help take some of the mystery out of the process of establishing a successful pricing strategy.

We consider that there are four basic components to a successful pricing strategy:

1. **Costs.** Focus on your current and future, not historical, costs to determine the cost basis for your pricing strategy .

2. **Price Sensitivity.** The price sensitivities of buyers shift based on a number of factors and your pricing strategy must shift with them.

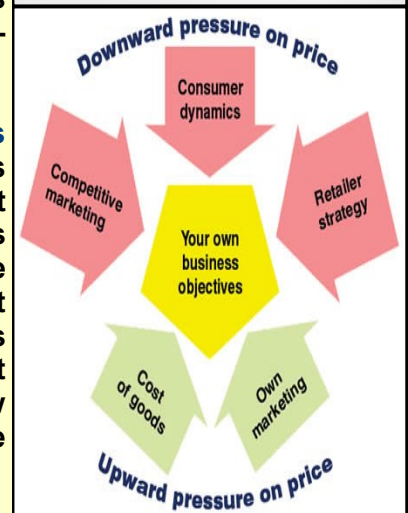
3. **Competition.** Pay attention to them, but don't copy them . . . when it comes to pricing strategy they may have no idea what

they're doing.

Product Lifecycle. How you price, and what value you provide for that price, will change as you move through the product lifecycle.

Pricing Before You Build
Establishing a pricing strategy is an activity that should be completed *before* you start product development. The only way to accurately determine how much money you can *afford* to spend on development, support, promotion and the other costs associated with a product is to analyze how much of that product you will sell, and at what price. That's the heart of a successful pricing strategy.

Use the Right Costs
A successful pricing strategy is your means of making a profit today, not of recovering costs spent a year ago. Don't use the cost of developing your current product as the basis for its price. Instead, use the current costs of developing your new products as the basis of the price of your current product.



PLEASE SEND ACROSS YOUR VIEWS AND FEEDBACK AT sheena.manchanda@jimsindia.org

Raise Price to Exploit a Reticence to Switch

Once the customer is yours, the situation switches in your favor. One of the resistance factors your salesforce encounters on a new sale is reticence to switch. An existing customer is still unwilling to learn something new, only now they're afraid to switch FROM you, not TO you. They would much prefer to add the functionality of your product enhancements instead of learning how to use something new. For you, price sensitivity is much lower as comfort and ease factors increase. So you might raise your update pricing accordingly.

Study the Competition

Study the competition, but don't react and don't copy

them, since they're likely making mistakes anyway. Let them guide you in terms of where you set your boundaries, and in terms of counter offensives you can launch to deal with obvious bonehead pricing on their part. And remember this as well: any move you make can be countered by them just as easily. Don't get caught in a no-win price war--which may hurt your product, their product and devalue your marketplace.

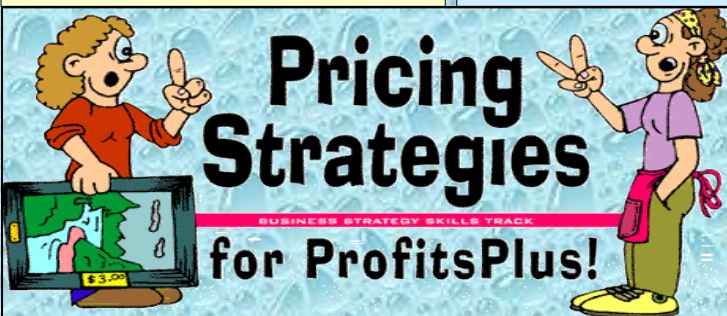
Align with the Product Life Cycle

How high or low you set your price is also going to be driven by where your product is in its life cycle. In general, the farther along you go toward the Decline phase the lower your price should be,

since your market will be (a) saturated with product and (b) have increased price sensitivity as their knowledge of the products increases. One technique to consider is unbundling support, training and services from the product itself, which will allow you to lower price without discounting.

Strategic pricing is the effective, proactive use of product pricing to drive sales and profits, and to help establish the parameters for product development. Used wisely it is a clearly powerful tool for successful marketing strategies.

Source: Markitek



		Low Quality	High Quality
Price	Low	Economy	Penetration
	High	Skimming	Premium

Pricing Strategies Matrix

