

# Nine Ways to Position Your Pricing

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# Introduction

Developing a price for your product or service can be challenging. Remember to consider your business goals and objectives, then set your pricing to achieve and align with these.

For example, do you want to increase profit margins? Increase market share? Maximise short-term profit? Maximise long-term profit? Match competitor's prices?

Outlined below are some pricing strategies to consider:

- 1 Cost-plus pricing**  
Essentially cost-plus pricing is determining the cost to manufacture the product or service and adding an additional amount on top to generate profit. This is generally worked out as a percentage and follows the formula:  
  
$$\text{Price} = \text{Cost of Production} + \text{Margin of Profit}$$
  
matches pricing similar to products by competitors. This pricing strategy is generally adopted when one of the following three statements applies to your product/service:
  - 1) Products have lasting distinctiveness from competitor's product.
  - 2) Products have perishable distinctiveness from competitor's product, assuming the product features are medium distinctiveness.
  - 3) Products have little distinctiveness from competitor's product.
- 2 Value-based pricing**  
This focuses on the price you believe customers are willing to pay based on the benefits your business offers them.  
  
Value-based pricing depends on the strength of the benefits you can prove you offer to customers. If you have clearly-defined benefits that give you an advantage over your competitors, you can charge according to the value you offer customers. While this approach can prove very profitable, it can alienate potential customers who are driven only by price and can also draw in new competitors.
- 4 Price Skimming**  
Price skimming is when a product is sold at a high price to gain a high profit.  
  
By adopting this strategy you are sacrificing high sales, but appealing to those in the market that have a need for the product or service. This strategy is only generally used for a short time to recover costs of initial investments (very common in the electronics market, with DVD players, laptops etc).
- 3 Competition based**  
This strategy involves setting a price for your product or service that

## 5 Penetration Pricing

This strategy can be quite risky, but if executed correctly can generate large profit. The strategy focuses on selling a product or service at a price less than market share in the hope of attracting more consumers. Once there is a steady flow of buyers you can raise the price.

## 6 Loss Leader

This strategy is when products or services are deliberately priced at a loss (less than the cost to produce it) so as to attract customers to buy other full priced or more expensive products or services sold by the business.

## 7 Price Discrimination

Price discrimination is when a different price is deliberately charged for the same product or service. For example a movie theatre: tickets are sold to children at a cheaper price than adults.

## 8 Market Oriented

This form of pricing simply sets a price for a product or service based on research and analysis from the product or service's target market.

## 9 Psychological Pricing

Psychological pricing is designed to have a positive impact on consumers, e.g. pricing something at \$29.95 instead of \$30.00 generates a positive reaction from customers.

Your selected pricing strategy can directly influence your choice of marketing tool – so be clear about your objectives to ensure your marketing strategy aligns to your pricing strategy!



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