

Features

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Death By (Over or Under) Pricing

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You probably learned in about fifth grade that great success can come from lowering the price so you can make it up on volume. Or maybe you're an admirer of high-priced luxury goods and imagine that those businesses are making money hand over fist?

I come to you bearing the wisdom and insight that comes from extensive experience helping many companies work on the business side of retail. I've read the books on pricing, attended seminars, symposiums and workshops that are dedicated solely to the subject of the art and science of pricing. It ain't braggin' if it's true.

There's one thing you need to understand and accept about pricing as a foundation for everything else about it and that is this: price and perceived value must be balanced. The price speaks to perceived value, but can't speak alone. You must provide the corresponding levels of quality of product, overall presentation—including facilities—and maybe most important, the service experience.

A Hard Look at Pricing

Every single encounter I've had with an industry firm begins with thorough examination of their pricing habits and practices because this is most often the cause of their discomfort, if not extreme distress that they hired a consultant to help them alleviate. Some companies that are doing very well have been wise enough to seek advice to become even better and tuning up their pricing has also been included in recommendations 100% of the time, even if the owners thought they had that right.

While I can identify pricing problems and offer a brilliant solution along with evidence that it will be effective, I can't make anyone implement. The companies that do decide to implement improved pricing strategies have always benefited from them. Those that failed to do so continued in their overall failures and many have gone out of business as a result of their ignorance. You don't have to trust me with this information, but I'll happily put my experience against anyone else's "make it up on volume" or "get rich by pricing high" theories and will leave them in those unwinnable battles.

The results of incorrectly pricing come in a variety of ways. You may lose business, or worse yet, cast a dark cloud of perceived expensiveness in your market if prices are too high. If underpricing is the issue, you didn't receive a return on the investment that you earned, cash flow fails and the business sinks. There's one more major issue with incorrect pricing and that's the way prices are presented to your customers. Adjusting the approach to presenting

pricing will have the greatest overall effect on your business.

Who Do You Listen to?

Listening to feedback on your pricing is wise, but it isn't the place to begin setting your pricing. The default position of most people is that the prices are too high. We Americans are conditioned to believe this at the core of our beings. This is ingrained into the culture of our heritage and reinforced in our education system, as well as in every encounter we have with pricing in our personal and business lives. But the reality is quite different, as all pricing problems are perceived value problems. Very few challenges to prices are about the price itself. Price questions are almost never about the price itself; they're about understanding the value—the perception of the value. When a customer brings up pricing after they've purchased they often will say, "The price was high, BUT (insert the value they perceive)." The word "but" in this sentence is what I call "The Great Eraser" because it erases the price concern and replaces it with the reason or justification of why the price was worth paying.

We're all armchair experts of pricing to some degree. Armed with evidence from the marketplace, American business people generally believe that they should determine pricing based on what others do, rather than consider all the factors available to them. Many business people are armed with additional education and training on pricing, much of which is incomplete, if not incorrect. But in the end, someone is going to make the decision as to what the price is whether they're arriving at it correctly or not.

Is the Customer Always Right?

I'm not saying you should ignore your customers' price questions. What I am asking is did you can hear what they said or what they meant? (See the sidebar for a list of 20 questions customers routinely ask.) If you listen to what they mean and act accordingly, you can overcome the negative effects of price questions that aren't fully understood and correctly responded to.

Some things to know about customer price questions and comments:

1. Often people (subconsciously) slow down the buying process with one of those price comments listed above, while they're considering the value. They're listening to the conversation between "you deserve it" and "who do you think you are buying that" that's playing in their head.
2. When the money is tight, or they're a tightwad, they're considering the consequences of spending more than they think they should or that their significant other thinks they should.
3. Quality and performance are more important than the price when they're considering whether the thing they're buying will actually accomplish the objective they have for it. The bitterness of poor quality lasts longer than the pain of parting with more money than you'd like to spend. Sometimes when you pay too little for an inferior product you lose everything you paid.
4. Sticker Shock can be disabling when buying a product the first time or infrequently.
5. Buyer's Remorse is often felt in advance: "Will I regret this purchase if I make it?" This is where a return and exchange policy is an important tool for removing risk.

This has thoroughly scratched the surface of the subject of pricing and has put you on the road to becoming more

adept. Deeper understanding of pricing will serve you like exercise and proper eating serves your health and extends your life beyond what it might have become. Read it over at least twice. Share it with your staff, then make a point to talk through it together.

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Customers' Comments on Price

Here are 20 common things people say to us about our pricing before adding “The Great Eraser” of “but (here’s why I paid it)”:

Wow! That’s expensive!

Your prices are _____ high.

I can’t afford that.

Can you do better?

I’m a good customer.

What if I buy more?

I’m going to buy a lot.

Can you cut me a deal?

They’re _____ cheaper/less/ _____?

You’re going to lose customers.

I just bought _____ over at _____ and it was only \$_____.

When does this go on sale?

When is your sale?

Do you want to get rid of these?

I know I can get these for less on the Internet.

Do you have these in a smaller size?

You don’t have what I wanted—can you sell me these for less?

Can you ask the owner if they'll take \$_____?

Can I talk with the owner?

How much do you pay for these?

Have you heard all of these? How did you respond? Did you lower the price? Or did you fully understand that the customer needed to better understand (perceive) the value?

And here's the big question: Did these questions and comments have a downward effect on your pricing after you heard them? **GP**