

THE ART OF PRICING

How to Find the Hidden Profits to Grow Your Business

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MAIN IDEA

Price is never one-size-fits-all. If you think that way, you're leaving money on the table in the form of hidden profits you can and should access to grow your business. Instead of looking for the "perfect" price where consumer demand is optimized and your profits are maximized, try a more multi-dimensional approach instead.

In particular, there are three different tools you'll need to approach pricing decisions more effectively:

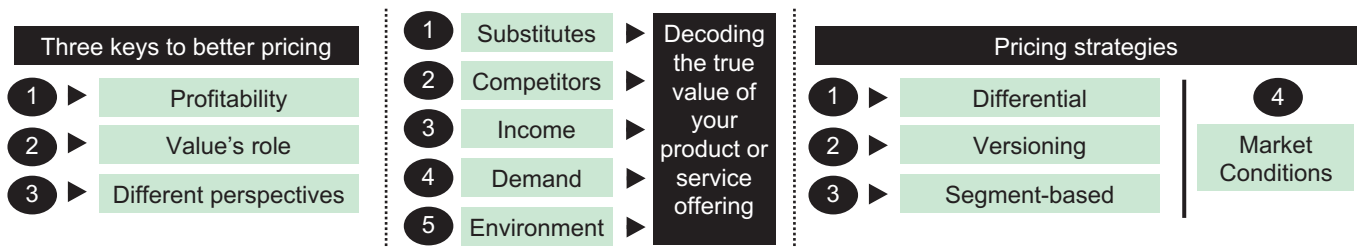
1. *You'll need the right mind-set* – where you look at pricing not as the search for a single optimum price point but as a multiple price point exercise in profit maximization. The key is to understand the value which exists in the mind of buyers should dictate and drive your pricing decisions, not other factors like what competitors are charging or your costs plus a set margin.
2. *You'll need a methodology by which your pricing decisions can be made* – a decoder which breaks down value into its various components so you can better understand how your customers are thinking.
3. *You'll need some pricing strategies which will enable you to maximize your company's profits* – strategies which are easy to create and to implement in the real world where you deal with customers day-in and day-out.

"For every product in the world, there are at least two people who are willing to pay different prices. If your company thinks about pricing primarily as an either/or, \$18 or \$31 type of decision, you are leaving a lot of money on the table. Pricing is not about setting numerical prices, it's about creating a set of strategies to maximize your company's profits. Pricing is more than a number; it's a series of integrated strategies."

– Rafi Mohammed

"I think the quickest and easiest route to growing profits is to adopt a pricing for profits and growth philosophy. For most companies, pricing is an underutilized strategy that holds the potential to generate big new profits. The reason new profits can be uncovered so quickly is they currently exist in your product. Since most companies think about (and implement) pricing in the wrong manner, their products are loaded with hidden profits."

– Rafi Mohammed



1. Three keys to better pricing Pages 2 - 3

Many businesses are not very good at making pricing decisions. They end up using a price which is based partly on what competitors are charging, partly on their costs and partly on market demand. As a result, companies end up leaking the profits they should be capturing. Fortunately, there is a better approach to pricing. To understand it, you'll first need to understand three key concepts:

1. You need to create a business environment that will allow you to benefit from better pricing.
2. You'll need to understand the linkages between value and pricing.
3. You'll need to appreciate that different customers are always willing to pay different prices.

2. Decoding the true value of your product or service Page 4

Before you can develop a worthwhile pricing structure, you have to understand how customers actually calculate the value of your product or service and what factors influence this valuation. Once you know this, you can then go to work on increasing your product's value and translating this information into the right market price or range of prices to be charging. Value is always changing and you need to know these fluctuations and allow for them if you're to have any chance of maximizing your profitability.

3. Pricing strategies Pages 5 - 8

The traditional search for the perfect price has to be replaced with a multi-price mindset if you're to capture missed profit opportunities. One price simply is not optimal. What is required is a series of strategies which will enable you to benefit from each customer's unique valuation of your product.

There are four primary strategies which can be used to create a workable multi-price mindset:

1. *Differential pricing* – where you sell your product at different prices to different customers.
2. *Versioning* – where you have a line of products offered at different levels and corresponding prices.
3. *Segment-based pricing* – strategies that activate otherwise dormant customers.
4. *Pricing to the market conditions* – where you run with high prices to create high expectations of value or low prices when it makes sense for strategic or fairness reasons.

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