

CHAPTER 14



Making sure your price is right

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Making sure your price is right

Getting your price right is hugely important. A 10 per cent increase in your price can increase your profits by as much as 40 per cent.

Setting the right price should be a tricky process for you. This is because pricing, and the whole notion of 'worth', is a very emotional issue, and deeply rooted in assertiveness. People are worried about asking a fair market price for their product or service because deep down they have a misguided sense of their own self-worth.

To get round this whole emotional minefield, people (and far too many business books) rely on technical pricing solutions. The most obvious version is 'cost-plus' pricing. Simply, you add up all your costs and then stick a margin on the top. While very tempting and easy, it is wrong for a basic reason:



The right price is what your customer is psychologically willing to pay for your product. Your costs only tell you if you have got a good deal from your suppliers

When publishing yearbooks, I realised I could make my books hardback, which would cost an extra £1 each, but as a result I could sell them for double the price – an extra £8. At the same time, my sales went up! People felt these were higher quality books and this was a small price to pay for keeping the memories of their friends and university safe for years to come. Which is also why I called the company 'Time of Your Life!'.

Six reasons not to be cheap as chips

There is nothing sadder in a business presentation than someone saying ‘and we will win lots of customers by being the cheapest’. As well as implying something about the person’s sense of self-esteem, it can cause a lot of business problems.

1. As a small business it’s unlikely you will have the economies of scale (like purchasing power) to undercut everyone else indefinitely. You will probably only succeed in doing this by working yourself to the bone until you get complete burnout.
2. Don’t forget, your competitors will react. If you start scooping up new customers, you run the risk of triggering a price war. They will probably have deeper pockets and more established customers than you, and anyway, no one will win.
3. Once you have established a low price with a customer, it is very difficult to raise the price later. Imagine trying to increase your price by 30 per cent with an existing customer – they’ll turn round and say ‘What kind of mug do you take me for?’ The same applies with ‘Sales’ in shops – do it too often and customers will just sit tight knowing one will be along soon.
4. Bear in mind – customers have an irksome habit of talking to each other. If you drop the price for one, be very sure everyone else won’t find out.
5. Low price and good value are not the same thing. Don’t think that if you drop your price, customers will immediately beat a path to your door. Far more likely, they might think you are cheap and nasty and avoid you like the plague.
6. You risk ending up with just the cheap customers, who will dump you as soon as the price goes up.

A number of hungry American credit-card companies came into the UK market keen to grab customers with zero-rate interest deals. The idea was that having hoovered up a big market share they could put their rates up. The problem was that they mainly got ‘promiscuous’ customers hungry for a good deal, who of course moved on to the next zero-rate deal when they put their rates up.

Some pricing strategies

Your customers should squeak at your price: This is an acknowledgement that while your price is uncomfortable, it is only uncomfortable because they still want it. You can then make them feel a little better about it by offering them a special discount such as free delivery or a free carrier bag. This allows the customer to feel better about the whole thing and convince themselves mentally that actually they've got a great bargain. (If they actually scream and run from the building then you've possibly gone a bit far.)

A great thing to point out to customers is:

You can have this good quality, you can have this fast, and you can have it cheap. You can have any two of these you choose, but you cannot have all three. Which do you want?

See how elastic your customers are: An unusually sexy term from economics, 'elasticity' is a measure of how far you can push certain customers before they snap. You'd be surprised how far certain customers will go. Who would have thought we'd be happy to pay £2.50 for some coffee beans and hot water, or £20 for withered flowers at an airport? You will often find your most elastic customers where there is a deeper need you are meeting that you might not have realised (i.e. feeding an addiction in the case of coffee, or marriage guidance counsellor in the flower case). Look at Chapter 12 for 'Understand what business you are in'.

Set fire to your price list: Different people will pay different prices, in different places, in different seasons, at different times of the day, for a whole host of different reasons. People will pay double the price for a hardback book, mainly because they are desperate to read it before anyone else.

In an ideal world you would be able to price according to each and every customer's degree of need. This is, of course, fiendishly difficult to do and remember (though certainly doesn't mean you shouldn't try).

Start by trying different prices depending on the type of customer (i.e. a cheaper price to trade customers, than to ordinary punters). Then try different pricing for different geographical markets, then perhaps for timing.

As a small Scottish marketing agency, I once quoted a job for a friend in a big London-based agency. He phoned me

up, chuckling ‘Caspian you idiot, you’ve sent me your costs – I need your prices’.

When you get more experienced in this, you can start to become a Jedi Price Master and read each customer coming through the door and price according to their level of desperation.

Don’t win every customer: It is much better to have five customers paying you £20 an hour than ten paying £5.

Price your offering on what it saves your customers, not what it costs you



For example:

An oil services business specialised in stopping ‘gushers’ – whereby oil escapes uncontrollably from a well. They used to price their service on the cost of their travel and then an hourly rate for their service. A consultant pointed out that the cost per hour to the oil company of a gushing well was in the tens of thousands of pounds. The company therefore re-priced their offering based on how much their prompt action saved their customers.

This explains why night plumbers charge so much.

Trade your customers up:

You can normally buy a beefburger from a fast-food joint for 99p, but can you remember the last time you actually did? They make their money by trading people up to the Super Dooper meals and Extra Everything or ‘Go Fat’, which is where they make the money while still keeping the impression they are cheap.

Think how many times you have been tempted into a shop by a low price in the window, only to be sweet-talked by a salesperson, and end up leaving the shop weighed down with expensive goodies. This should be your policy.

An alternative, and I think slightly dishonest approach, is to hook customers with extras. Think of all the extended warranties you get in electrical shops. Ever wondered why buying refill razor blades is more expensive than buying the original razor? My view is you may get customers once, but they’ll get wise.



Never underestimate your customers’ willingness to trade up

Tell your customers to BOGOF: A variation on the previous strategy, this wonderful acronym in the retail trade means Buy One Get One Free. This, and its multiple variations (25 per cent larger, third one free, etc.) is a good way to allow customers to feel they've got a good deal, while keeping up the value perception of your product.

What if my industry is VERY price-sensitive?

There are precious few businesses that aren't pretty price-sensitive, and some that are chillingly so. Customers are savvy these days. So what can you do?

Specialise in a niche, not the mass market: It might be uncomfortable at first, but it can be far more pleasurable to have a small but highly profitable specialist niche in a market where you can keep your operations small, and lovingly craft your product.

The pressure of cheaper Chinese-produced shoes has eroded the UK shoe manufacturing industry. However, a growing number of small British manufacturers make a very good living from hand-crafted shoes sold around the world at up to £1,000 a pair.

Add non-core items: See if your customers will pay more if you add extra benefits to your service such as delivery, specialist packaging, installation services or after-sales support.

Be entrepreneurial in finding supplies: Look hard at new technologies or new markets for getting suppliers.

Stress your added value: You might be able to justify a higher price if you can clearly demonstrate that you add more value than your competitors.

Get out: Maybe you've inherited a business, or started up in a trade you have always been in. Unfortunately, just because there was a future for your business yesterday doesn't mean there will be one tomorrow. However much we lament the hordes of industrious Chinese who will work fifty times harder for a bowl of rice, they aren't going to go away. There are 1.3 billion of them.

Perhaps you can find a new market where the competition is a bit less intense.

