Field Guide: Maximising Your Revenue

Learn How Pricing Strategy Can Improve Your Revenue

ezidebit®
A division of globalpayments

Pricing will determine how many customers you win.

What Is Pricing Strategy?

Understanding Pricing

How do you decide the price tag you put on your products – or how much you charge for your services?

This is the single, most important decision for businesses today. Pricing will determine how many customers you attract. How long you will keep each customer. And of course how much profit you'll take home.

Pricing strategy relates to the method of determining what you sell your services for, and it should take careful consideration.

After all, a company runs on revenue – and profit – both of which are entirely in the hands of your pricing strategy.

Key Pricing Strategies

There are five main strategies for setting your price, depending on your desired outcome;

1. Penetration pricing
Setting a low price to gain market share. Used often by companies that entice customers and then sell additional, more profitable items at the same time.

2. Price skimming
Setting prices high to boost profit quickly and recover production and/or marketing expenses. Over time, the price will begin to decrease incrementally to capture a greater share of the market.

3. Discount pricing
Companies often discount items for a short term sales boost. However, long term discounts can negatively impact profitability.

4. Product lifecycle pricing
Demand-based pricing that changes during a product's lifecycle – birth, growth, maturity, and decline stages.

5. Competition-based pricing
Competition-based pricing involves watching your competitors (or a single dominant competitor) to determine an average price and then adding a standard markup or discount.

Getting It Right First Time

Ultimately, you will want to make the right decision first time - changing strategy shortly after placing items on sale doesn't create the best impression for your customers, who could feel they have overpaid should the price alter dramatically.

People will judge, consciously or unconsciously, the quality of a product from its cost.

Other Factors to Consider

Customers See Price as an Indicator of Quality

Any pricing strategy needs to also manage customer perceptions. People will judge – consciously or unconsciously – the quality of a product from its cost.

A brand can say a number of things about its goods or services from the price tag alone. A high one suggests a good level of quality, while a lower price indicates an item of lower grade.

When quality is difficult to perceive, such as in the services of a fitness coach, the price provides a more tangible measure, and could attract or detract certain customers.

How Price Affects Sales Volumes

We've all heard of supply and demand, but there is also price and demand to take into account – or as it's also known, elasticity of demand.

Elasticity of Demand

This is an equation that measures the quantity of goods sold against the consumer appetite.

For example, train tickets are inelastic, meaning public transport operators can hike up the price at peak times for a greater profit without fearing that people will turn away – because they consider the purchase crucial regardless of the price.

Meanwhile, cars are often elastic, because any change in price is likely to affect the number of people buying one. Elastic pricing is common when there are a lot of competitors offering similar products in the same area.

A company can determine the elasticity of its goods or services by changing their fees for a subset of clients – by offering a special for one month, for example.

By then gauging what effect this has on demand, if any, they will have an idea of the elasticity of their pricing strategy.

There are three general terms that a company's goods and services will fall under;

1. Inelastic
When price changes, customers will still purchase the same quantity.

2. Unit elastic
When demand is perfectly correlative to price on a 1:1 ratio.

3. Elastic
When demand responds more than proportionately to a price change.

Fast Fact

Duracell was able to increase their Sales by 15.7% after releasing a new premium battery range because they were perceived as being the best on the market. Consumers saw the higher price as an indicator of the product's superior quality.

Nielsen Data from Deustche Bank for period ended Sep 28 2014.

How Pricing Strategy Can Improve Your Revenue

Your pricing strategy will directly affect the amount of sales you make, and ultimately determines revenue.

Choosing the right strategy is an important first step, both for new companies as well as existing ones releasing new products or services.

Thought needs to be put into the payment methods whenever you begin selling a new item, as well as the expected elasticity of demand for that item and how your pricing decision will create an impact on its perceived quality.

You also needs to put considerable thought into how you will sell your product or service, and the flexibility you will provide in terms of its financing options. Choosing the right strategy is an important first step, both for new companies as well as existing ones.

Ways to Pay - Recurring Revenue

Certain services, can be sold using recurring payments as a basis. Customers will use the goods or services of the company throughout the month, and as such will pay regularly.

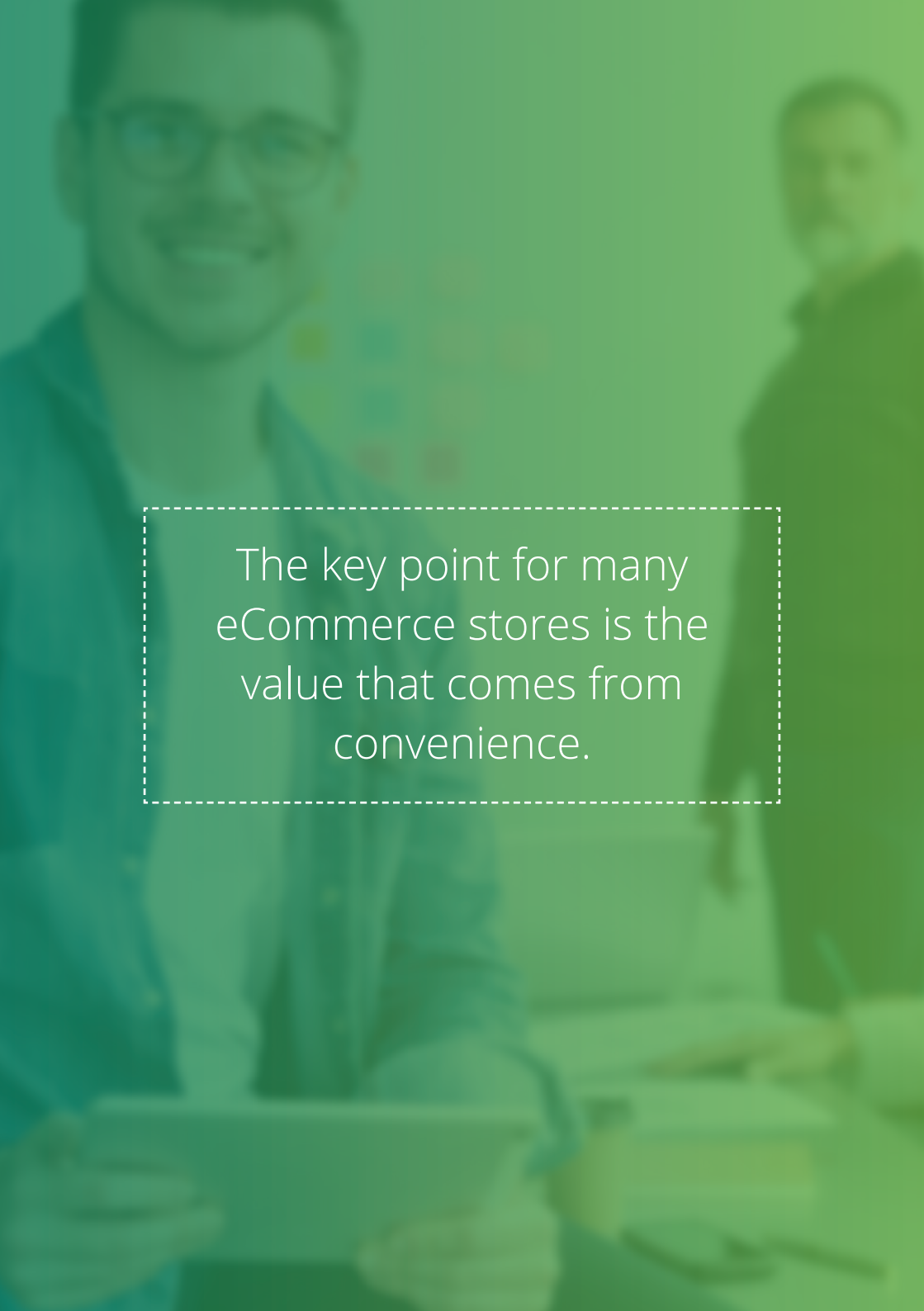
Anything from utility bills and phone contracts, to childcare fees, gym fees, and rent can fall into this category.

In these instances, companies have the option to extend their payment options to include recurring payment options like direct debit.

Why? Typically, the set and forget method of direct debit results in lower number of missed payments, higher customer retention, and as such have a positive effect on overall revenue.

Another advantage of recurring payments model is that it allows companies to split up otherwise prohibitive fees across a longer period of time.

An every day example of this is a telecommunications contract. Instead of selling a $1200 two year internet service (which might preclude certain customers), they can sign clients up to recurring payment models that bill customers in 24 monthly increments of $50.



The key point for many eCommerce stores is the value that comes from convenience.

Ways to Pay - eCommerce

Similarly, it may be possible to sell goods online as well as through a physical store.

Using the attraction of eCommerce resources, a company is open to a wider range of competitors, so the pricing methodology is likely to change as a result.

However, lower overheads and a vastly more diverse customer base makes for the prospect of more sales.

The key point for many eCommerce stores is to keep operating costs and the costs of each sale as low as possible to increase profits.

Online, the value comes from convenience. Your customer has to do less legwork to make their final purchase, improving the likelihood of both repeat business and recurring revenue.

Value Added or Quality Assured

As previously mentioned, how you price your products will determine a customer's perceptions of quality – and ultimately value.

However, the opposite is also true for you: value, or more specifically, profit margins, should also determine how you price your products.

If you are selling plastic forks to the wholesale market, it is unlikely that your pricing strategy will revolve around quality.

Instead, large quantities of low-profit products will be the name of the game, and your pricing methodology will have to match.

With a similarly low production cost, this company may decide to use discount pricing to push volume and allow small profit amounts to add up.

In any instance, your pricing strategy will play a key part in determining profit.

Fast Fact

In 2015, Apple released its office software for free to compete with Microsoft's popular range. The aim was to use this bold pricing strategy to attract long-term customers and steal market share.

Common Pricing Strategies

Understanding Customer Needs

Within pricing, it is also important to look at the finer points that can play a significant role in deciding sales, revenue and profit.

The essence of a remarkable customer service experience is formed when employees take the time to understand exactly what customers' needs are, and address these - with a smile on their face.

Psychological Pricing

Even the small details in your pricing strategy can have a subconscious effect on customers that ultimately determines the success of your strategy.

Psychological pricing is based around the customer's emotional response when they see how much your item costs.

While their logical, conscious mind may be rationalising the price of your item, their subconscious mind will already have made a decision – for better or worse.

Even the small details in your pricing strategy can have a subconscious effect.

Customers can either have a response that appeals to their thrifty nature, believing they've found a deal, or they will assume the item is of good quality and worth spending more money on.

A good example of this is odd or even pricing. If the price tag of your item ends in an odd number ($99.95, for example) the shopper will be more likely to believe they have found a deal.

This explains the effect seen in the fast fact on the previous page. Double numbers have also proved effective in psychological pricing, which is why we see so many goods labeled for $99.

Alternatively, goods or services that end in an even number ($100) have a subconscious response that relates to quality.

Because the price only has to change by a small amount to give a completely different subconscious reaction, psychological pricing is a good tactic – without making large price or product alterations.

Fast Fact

An experiment by MIT and the University of Chicago, priced a clothing item at $34, $39, and $44. Surprisingly, the item sold the most at $39. More than it did at the cheaper, even price of $34.

Bundle Pricing

If a retailer has a range of products, a bundle price strategy can allow companies to tag higher-profit items onto ones that customers find most attractive. Fast food chains tend to do this with great success.

Few people will enter one of these stores to just buy fries, even though these are often a product with the highest markup. By offering fries for a cheaper price with a burger, the company makes more than they would do otherwise.

A company can also sell single items in bulk, taking a smaller individual profit for a larger overall revenue.

This is why you can always buy personal trainer sessions in packs of 6 or more. With a bit of creative thinking, all types of businesses can learn to package their goods and services, and offer a more profitable bundle price.

Luxury Pricing

Premium prices can often be attached to goods to promote a more prestigious brand image in the eyes of potential buyers.

A high price tag gives the impression that some part of the product or service is better than its competitors.

As a result, an item that is priced in this way can have a high profit margin – though understandably the quantity of sales will fall as a result of its exclusivity.

Unique products, and those without significantly cheaper competitors, have the ability to launch a luxury-priced item. Though the challenge is getting it right the first time.

Any drastic price change resulting from a flawed initial strategy will likely have a negative effect on brand image rather than a positive one.

Fast Fact

Luxury designer Louis Vuitton recently jumped to number 10 on the Forbes most powerful brands list with a value of almost $30 billion, beating value-based companies such as Walmart (19th place) and Zara (51st).

Creating Your Action Plan

A pricing strategy is not set in stone, but it is important to get it right.

For this, a company launching new products or services, or simply reviewing the prices of old ones, should have a strong plan in place for making the right decision. This can include the following steps;

1. Research
One of the first steps you should take is a thorough review of the market in which your item will be sold. You should consider:

- Is the product or service is unique?
- Is there much competition?
- What does your competition charge?

For instances when there is competition for a similar product or service, a smart approach can be to plot on a graph the prices charged by each rival. This should give you a good idea of the price range in which you can be competitive.

One of the first steps that should be taken is a thorough review of the market in which your item will be sold.

2. Assess
Next, assess how much profit you will need to make from the sale of each item.

Can this be improved by bundle packaging other services or goods to create a healthier margin? Come to terms with the quality of your item when compared to your closest competitors, and ask yourself if your price aligns to a customer's perceptions.

Then consider how you will play on unconscious cues to tip the likelihood of sales in your favour – including whether you need to use odd/even pricing, what your price tag will convey in brand quality perception, and where you are placed in terms of the price/quality comparison.

Come to terms with the quality of your item when compared to your closest competitors.

3. Discuss
Before writing out your first price tags, make sure your decision is based on quantifiable information, including data and analytics, as well of the opinions of those who matter.

Your customers can be a valuable source of information and you can query them to determine current brand perception in terms of quality, as well as their propensity to switch if prices went up.

Ask for their feedback. Or write a questionnaire to gauge their desire to buy, their price expectations, and the factors that could lead them to turn to your competitors instead.

This way, you can make sure you are attracting their custom in the short term, as well as potentially unearthing crucial information, which could be used for a better profit margin on other products or services.

The Conclusion

Congratulations

You're now up to speed with some of the finer points of pricing strategies and payment models. We hope you enjoyed our short guide.

If your business is looking to implement a trusted third-party payment provider, Ezidebit can equip your business with the essential tools to stand out from the competition with a distinct point of difference.

Ezidebit has helped thousands of businesses gain control over their cash flow through direct debit, BPAY and eCommerce Payments.

Ezidebit also integrates with numerous CRMs to ensure seamless business management, allowing businesses to save time and resources, which they can then use to focus on growing their business.

To see these and other benefits for yourself and sign up for a new account today, visit *www.ezidebit.com*

Ezidebit is a leading provider of secure cloud payment technologies in Australia and New Zealand. Our cloud payments platform supports our clients to achieve customer-centric business transformation at scale.

Today thousands of businesses - from startups to enterprises - across a range of industries have chosen Ezidebit as their trusted payments solution provider. Ezidebit is a part of the Global Payments (NYSE: GPN) network of companies.

1300 763 256 (AU)
0800 478 483 (NZ)
www.ezidebit.com

ACN 096 902 813
AFS License 315388

ezidebit®
A division of globalpayments