

The price is right – or is it?

A Guest Article by Christopher Jenkins
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How to devise a good pricing policy

Probably the most annoying thing in the world is having to listen to your accountants telling you how to price your product. Don't they understand that you can't charge more than the market rate? Lots of mumbo-jumbo on "cost-up pricing" and a daft suggestion as to what we should go out at on that big contract that, quite frankly, we would almost pay to get.

What on earth do they know about what is strategically important for our business, or what our customer is really prepared to pay?

Pricing is probably the most talked-about, the most cliché-ridden, subject in business. You know the sort of stuff: "If the client doesn't question your bill, then you aren't charging enough", "Don't price yourself out of the market", "Pile it high and sell it cheap", and so on.

Yet the problem is that although pricing is one of the most important considerations in your business, it is an area in which the least amount of science is applied and the most amount of "gut feel".

So, how about some guidelines? Here are four questions to ask yourself.

1. Who actually makes the pricing decisions in your business?

If you examine what actually does happen, you may come up with a surprising answer. The Chartered Institute of Marketing recently released some fascinating research on this subject. In the companies it researched, sales managers were involved in 60% of decisions and marketing directors in 49%. It discovered that finance professionals were "very involved" in pricing decisions in only 30% of companies, and were involved either not at all or just marginally in 31%.

So that proves the point, doesn't it? The right people are involved. No, not necessarily. Sales people will, by their nature, have a discount offer up their sleeve in order to get the sale. So if your goal is to maximise profits, this is not the answer.

Before we decide who should be the final arbiter of price, have a close look at who actually does take the decisions. One client of mine, in the media business, was surprised to realise that someone in the technical department had taken a pricing decision on one occasion. Having sourced a piece of rental equipment at a fraction of the market price, he triumphantly rang the client with the good news and applied the standard company mark-up to it.

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The result was that the profit on the mark-up ended up as £2,000 instead of £10,000 and the client was left confused, and probably suspicious that they had missed out on this sort of price reduction elsewhere.

The answer is to apply science, order and thought to the pricing process.

2. Is your pricing policy flexible?

The question is not whether you give in to your customer each time they ask you to drop your price. Oddly enough, what this approach requires is the same answer. If you are a retailer, you may have to price differently at different times of the day, to encourage customers to come in at less busy times and so avoid the cost of extra staff. Fruit and veg sellers on the street corner do it instinctively, without having spent three years at Harvard Business School.

Try out the “7 Series” pricing concept. A digital printing client of ours was worried that lowering prices in this post-dot.com recession would endanger their brand and prevent them from restoring the price once the recession turned. Instead of just cutting your price, the intelligent solution is to create more than one product, which you can then price differently. They did it by recommissioning an old Chromapress that had been mothballed but was still giving reasonable quality to work alongside their brand new Indigo Press.

BMW (like most car manufacturers) has created an affordable car without destroying the brand value of the 7 Series. They did it by bringing out the cheaper 3 Series, so that mere mortals such as us can afford the brand of our dreams and someone who simply *has* to spend £70,000 on a car can still do so.

3. Do you know what your price drivers are?

Well-run businesses use pricing management to achieve their business objectives. In simple language, they have developed a science behind what might otherwise be just gut feel or the so-called “industry rate card”. Examples of these drivers are:

- selling on value as opposed to price
- segmenting the marketplace to be able to attack it more intelligently
- long-term price management strategies such as “penetration pricing” or “pre-emptive pricing”, both expressions being pretty much self-explanatory.

Pricing should be a key element in constructing your budgets and one of the main tools that enable you to shape the business the way you want it to look. If it is a part of this overall strategy, then you can afford to take on loss-leading

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opportunities for strategic reasons, test the market to its absolute price limits, and bill according to value generated regardless of the real cost of the service. On the other hand, if your pricing policy is haphazard, then so will be your bottom line.

As with any other key corporate strategies, you need a clear and intelligent pricing management process. Have you got one?

4. Have you added value and then lost it?

We have all talked about “value-added this” and “value-added that” until we are blue in the face; but what about the “value lost” in our businesses? An intelligent pricing policy does not just seek to extract the maximum sum for a service or product: it ensures that all the value that has been added is actually charged for in the price.

In my experience, businesses are often chucking away 20% of their turnover just because they are careless: no water-tight brief or “deliverables list”, and no clear, up-front mechanism for charging for work outside that brief.

Do what your house-builder does to you! Describe exactly what it is that you are going to do for your client and what rate you will charge. Let your client know what you are **not** going to do. Then ensure that everything you do is actually charged. If the client subsequently asks for more, how can they complain when you bill it as an extra?

This approach requires you to be clear, brave and rigorous in front of your customer. If you are, then they will end up paying you the proper price – more than they would have done – and also without concluding that you are expensive.

Good pricing policies seem to me to have a lot in common with shampoo adverts: first of all don't forget the science bit, and secondly, charge properly – because you're worth it.

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If you would like more information on any of the points covered in this Guest Article, please contact **TCii** on **020 7099 2621**.