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Drop Your Price at Your Own Risk! Why You Need a Pricing Strategy.

By Jim Nowakowski

A retail furniture merchant had a problem: No one was buying his furniture. The merchant sold high-end, English antique and restoration items with the average price of $7,500 and select pieces fetching as much as $250,000. He asked for our advice on how to get his inventory moving. He was thinking about "having a sale." We advised him don't do it. These items are works of art, and should never be put "on sale."

The merchant didn't heed the advice, and within a couple of years, he went out of business. He blamed the economic times around him.

The fact of the matter was, it was his own fault. We created a direct mail piece for him that generated hundreds of leads. He didn't follow up on the leads because he didn't want to be construed as a "telemarketer." "Wait a minute," we said. "A telemarketer is someone who cold calls on the phone, bothering you during dinner. These leads come from people have who have asked you to contact them."

It's a sad story, but those were tough times. The urge to lower your price has never been greater because times have gotten tougher. You should never, however, lower your price for a simple reason: **Once you do, you will never get back to where you started.**

Take automobiles, for instance. In 2003, General Motors announced 0 percent financing on almost all its models. This decision was followed by similar decisions from Ford Motor Co. and Chrysler. What is the norm today? I sat on an airplane next to a Ford Motor executive, reading this story about GM in 2003, and I asked him "What do you make of that?" He said that he couldn't believe Ford was following GM's lead on this. His fear came true: Consumers now expect 0 percent financing all the time. Today, you even have one manufacturer offering to "pay your bill" if you get laid off.

Pricing is not like walking across the globe and ending up at the point you started. Pricing theory and practice is part science, part art form – a combination of circumstances, luck and, well, giving people what they want. While there are tons of articles you can find on the Internet about pricing, the one truth about it is that **you leave your current price at your own risk.**

By discussing pricing strategies in a straightforward way, yet from a different point of view – your customers' – it will clarify a plan of action. Sellers often price based on what they believe the market will bear, or what the competitor is offering, or something called "Cost Plus." You hear terms like "market pricing" or "multipliers" in the two-step distribution chain. While I'm not arguing against competitive pricing, I am stating that if you start with what the market will bear or with what your competitor is charging, **you will never know what the real price could or should be.**

Gucci

There's a Gucci Bella Medium GG Tote bag priced at Neiman Marcus at $1,595. The exact same bag on the Gucci website is $1,590. The exact same Gucci bag on a handbag outlet webstore is $195. Ask yourself: 1) What is the bag worth? 2) Where would you buy it? But more importantly: 3) Do you want a Gucci, or do you want a tote bag? Fundamentally, a tote bag is a tote bag. But it doesn't matter what you or I think or want. What matters is what the customer wants to buy – in this case, a Gucci tote bag.

For example, do you think each of these three merchants sells the Gucci Bella Medium Tote? Yes, they do. Do they sell the same "volume?" Of course they don't! That is another piece of the pricing puzzle that should be learned: Think about volume when you think about your price (there are some people who will pay $1,595 and others $195).

Class in Session

Forget what you are selling for a moment. Instead, concentrate on the reactions of the person you are selling to. For any item – whether countertops and other surfaces or Gucci bags – there are only three possible reactions to any price attached to an item. Once you understand these reactions, you can begin your journey into deciding your own pricing strategy. **You do need a strategy**; you can't have knee-jerk reactions to the marketplace because in this economy, everyone is looking for the best price.

Now here's a dirty little secret: The best isn't always the lowest price.

The best price is the price that delivers the value that the customer wants and that you are willing to settle for. Sometimes it's not the lowest price. If it were, Gucci and Neiman Marcus would not be selling bags on their websites.

Here are the three possible reactions to any price for any item:

1) The price is too high.
2) The price sounds about right.
3) Is that all?

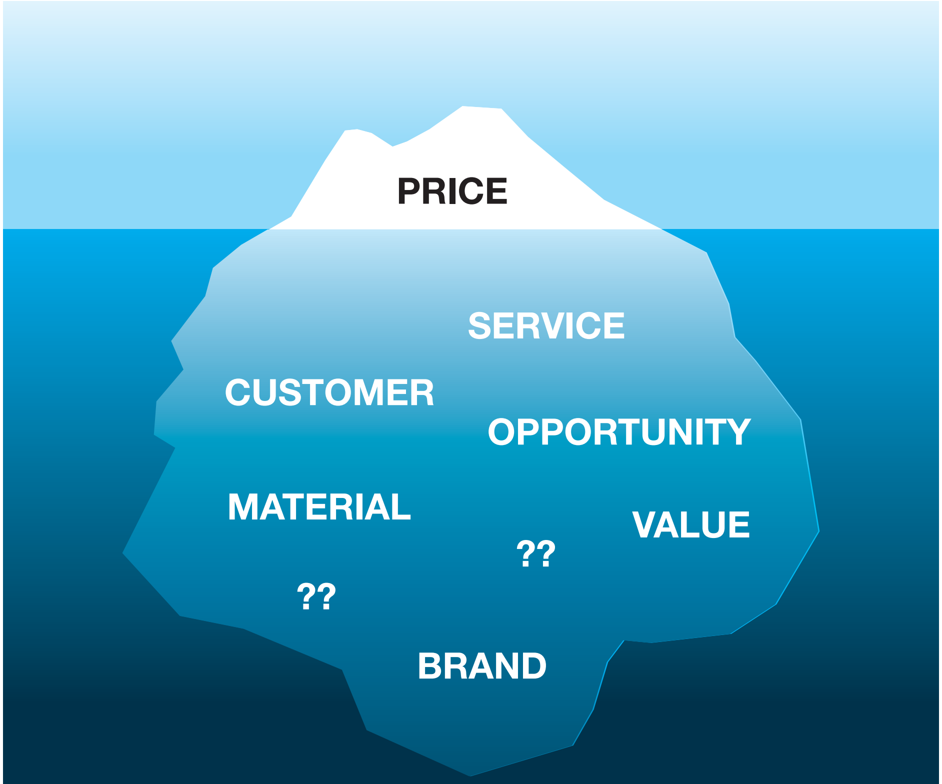
Now these reactions aren't always verbal, but they do happen. If you study your own reaction to prices, you react in one of these ways – <u>always.</u> Let's briefly examine each of these reactions in light of developing your pricing strategy.

Reaction 1: The price is too high.
For various reasons, when people react like this, they are comparing this price to something. Perhaps it's their budget. Perhaps they've "shopped" the item. Maybe someone told them what to expect. In any of these cases, your pricing strategy to this reaction should be this: The customer isn't comparing apples to apples. So how do you deal with this reaction? Education! You have to educate your customer to understand how your item is different than the item in his/her mind. Most of the time, it's pretty simple to add value to justify the price by explaining what the customer is getting for the price.

For example, while most countertops may look alike to the consumer, every fabricator knows they are not the same. And while you can argue that granite is granite, it's not. Once you put your brand on it, it becomes "XYZ" granite. This adjective differentiates regular granite from what you offer.

Reaction 2: The price sounds about right.
This is a no-brainer, and the deal gets done. Right? Wrong! This is your opportunity to add even more value – and perhaps profit. If the item "sounds about right," then there is room to maneuver. Your pricing strategy is: Upsell! Maybe they would be interested in a more unique edge on their countertop, better backsplash, higher-end sink or all of those things. If you can get them to invest more in their purchase, in the end they will likely be happier with the final product and you will have increased your profitability.

Reaction 3: Is that all?
Believe it or not, many people react like this, but instead, what comes out of their mouths is, "That's a bit expensive, isn't it?" We have been so trained to react to any price as "too high" that you have to re-train yourself to look for this



The Iceberg Pricing Model demonstrates that people see "price," but it is your pricing strategy that shows them what's below "price."

reaction underneath what you may be hearing. When you can identify this, you can identify more opportunities to upsell.

The Iceberg Pricing Strategy

When you see an iceberg, you see only the tip. What's below the tip is the larger mass, and what's below the surface can destroy you – unless you learn to maneuver around it.
So it is with price. Your customers see the tip, but they have no idea what's below the surface. That is, until you tell them (is the customer buying a Gucci or a tote?)

For example, my wife and I needed a small rug for the front door. Now, you can buy these at any of the traditional retailers like Target, but we saw a Rugport store in our town, which always had loads of Persian and Asian rugs in the window. Standing outside in nice weather, we decided to stop in just to see what their rugs cost. When we entered, there were a couple of guys moving rugs in bundles, and a few more standing by the back counter talking. One was wearing a suit; the others were dressed casually. The man in the suit saw us when we came in, but returned to his conversation with the others. Because I'm a sales guy, I could tell he was keeping his eye on us as we browsed and looked at the overwhelming number of samples in his store. Finally, after five minutes or so, he walked over to us. He said, "Beautiful, aren't they?"

"Yes," I said. "But I don't know much about rugs."

"Ah," he said. "Let me show you." He then issued orders and two men came running over. He told them to pull out a rug that was buried beneath five other rugs. It was no easy task to lift and set them aside, but the two men grunted and strained, finally producing the rug he wanted. He told them to open it, and they rolled it out in front us like a giant 10- by 12-ft. welcome mat.

The man then knelt down and invited us to kneel as well. He took his hand and started pointing to the rich fabric, saying, "This was made in a town in Iran, in the mountains…" and he weaved the story of the village, how the people had been making rugs there for hundreds, even thousands of years. He told us the age of this rug and how you can tell it by looking at it. "You see, look at this," he kept saying and pointing, inviting us to feel the fabric. He showed us the edges, and then ordered the two men to go over to one of the corners and bring over another rug, which they eventually brought and rolled out.

"Here, look at the difference. This was made in China. Not bad, but nothing like this one." He then explained more about each of the textures.

I learned more about rugs that day than I wanted to. And guess what? We purchased not only the throw rug, but the Iranian rug for our parlor. We spent way more than anticipated. Now, was it the salesman selling the salesman (because sales guys are easy marks)? The answer would be no. His performance, his explanation, brought about that sale – and I did not bargain on the price.

The moral of the story is: **Tell stories** – your stories about your materials; the way you create your product and enhance your offerings. The rug salesman demonstrated knowledge of his product beyond anything I could have imagined. He educated me enough to understand the differences in products and why my "investment" would be better served with the one I purchased. He even issued a written guarantee on its value and a promise to buy it back when I wanted to sell it.

The same is true of your products and services. Your pricing strategy must paint a picture in the minds of your customers. Your company is your brand. You are not selling granite – you are selling XYZ granite, or granite brought to you by XYZ. Companies differentiate with colors and materials, and that's all well and good, but for your pricing strategy, differentiation begins and ends with your BRAND and your VALUE.

The good news is that today's consumers prefer value over price, according to Nielsen's 2011 Global Online Survey of more than 25,000 Internet respondents across 51 countries. The study pointed out that while low prices are important to shoppers, getting a good value for their money takes priority: 61 percent rated "good value" over "low price."

The study indicates that if you provide that value, you will gain the most from consumers who continue to stretch their money in this economy – and it's a preference true in Asia, Europe and North America. Here's another observation from that study: It found a clear preference for strategies that increase value, even in the form of more expensive overall package prices.

So get your pricing strategy in order and re-think the urge to lower your price! ISFA

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