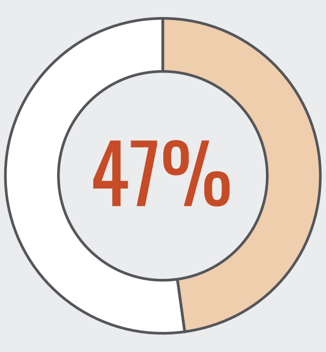
COMMON PRICING STRATEGY MISTAKES

Top **6 mistakes** companies make when setting prices and how to avoid them

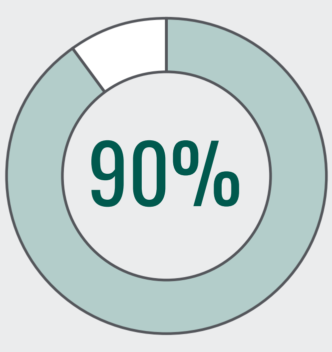
Amid volatile market factors, companies are heightening their focus on margin and profitability to ensure long-term stability. Pricing strategy is a key component for companies in their efforts to achieve margin and profitability goals.

While pricing has become increasingly important to companies, finding the right price to meet business goals has become more difficult. Inflation, rising interest rates, supply chain issues, and shifting market dynamics cause companies (and their customers) to reevaluate priorities. Building a pricing strategy that's both calibrated to the market and external factors has never been more critical, or difficult, to pinpoint.

An optimized pricing strategy will enable you to drive revenue and maximize profitability without alienating customers. Since there are many ways to get pricing wrong, ensure you develop a data-driven pricing strategy that avoids these 6 common mistakes.



Of new products fail in the pricing stage



Of companies highly value pricing research

Source: Hanover Research

TOP PRICING MISTAKES

MISTAKE 1: NOT ALIGNING PRICE WITH BUSINESS STRATEGY

Many companies make the mistake of viewing pricing as separate from company strategic goals. But pricing and company strategy should go hand-in-hand.

Is your main goal to focus on market growth or increase your profit margin? For market growth, you would want to consider a competitive price that allows you to expand your customer base, while increasing your profit margin may entail selling at a higher price to a smaller audience.

Are you promoting a value-based product or aiming to build a premium brand? A value-based offering will price lower and can fluctuate with discounts, while a premium brand will have a higher price point that rarely offers discounts or risks damaging the brand image.

Before you begin calculating your ideal price point for your products and services, you need to identify the role price will play toward achieving your business goals.

SOLUTIONS

Internal Research: Identify goals across all departments to understand how certain pricing strategies might affect the company's overall strategy.

Historical Data: Evaluate how price has supported your goals in the past and how changes in price may impact business success.

Brand Perception: Understand how customers evaluate your brand and how price influences that evaluation.

Competitor Research: Investigate how your competitors factor price into their goals and brand image.

MISTAKE 2: RELYING ON GUT FEELING OR ANECDOTAL DATA

Often, companies price based on what has worked in the past and rely too much on legacy pricing models that don't work in the current climate. Companies can also tend to price in a vacuum based on a few specific experiences and gut feeling on market demand.

As customer demand and sensitivity to price continues to change rapidly, companies should avoid relying on old pricing models that can quickly become outdated. They need to collect new customer and market insights to develop a price that aligns with current demand.

SOLUTIONS

Data Analysis: Conduct an in-depth evaluation of your past performance.

Price Optimization: Model product and pricing configurations to identify the ideal price.

MISTAKE 3: NOT SEGMENTING YOUR CUSTOMERS

Customers can have many different needs and considerations when considering what to buy. This can include price, support, complexity, and more. Rather than deciding on a price that generalizes customers' preferences, needs, and financial capabilities, companies need to segment their customers to build a refined pricing model that can appeal to a wider customer base and maximize their ROI.

There are many ways companies currently segment their pricing. For example, geographic-based pricing includes increased costs based on location. Tiered or bundled pricing offers different price points with the inclusion of different products or features. The right segmentation for a company depends on a combination of its offering and customers.

SOLUTIONS

Customer Segmentation: Identify and segment customers into meaningful groups based on behavioral, attitudinal, demographic, and psychographic data.

Price Elasticity: Analyze historical data to understand how different customer segments have reacted to price in the past and to align pricing moving forward with their needs and preferences.

MISTAKE 4: FOCUSING ON COST AND NOT VALUE

While it's important to factor in the cost of a product combined with your goal margin, many companies use this as the sole basis on which they set price. This leads them to miss out on a critical factor: How valuable the market thinks your product is.

Rather than the cost of production, customers evaluate the price of an offering against the benefits it provides and how it compares with similar offerings in the market. By focusing only on COGS to set pricing, companies may leave revenue on the table for a high-value product. Calculate the value of your product by understanding customer needs and pain points, measuring both the direct and indirect ROI of your offering, and evaluating the value of your brand reputation.

SOLUTIONS

Brand Equity: Determine the commercial value of a brand's reputation based on consumer perception.

Price Sensitivity: Understand how much customers would be willing to pay for your product or service.

MISTAKE 5: NOT CONSIDERING EXTERNAL MARKET DYNAMICS

There are many external factors that can affect not only your business but the customers who buy your product.

Failing to consider market dynamics like regulations, economic factors, availability vs. demand, and more, can result in unplanned costs, a decline in customers, and lower than projected profit.

Companies need to consider market dynamics that impact their own costs — like supply chain shortages or raw materials costs — and those that impact their customers, including factors that impact their ability to access and pay for products, or shifting dynamics that affect or change customer needs.

To stay ahead of shifting market dynamics, companies must identify and monitor the factors that can influence their business and build a pricing strategy that helps them navigate and alleviate risk.

SOLUTIONS

Market Dynamics: Understand market opportunities and risks to develop a price point that customers accept while protecting your bottom line.

Trends Analysis: Track shifting dynamics in your market to forecast and prepare for potential risks.

MISTAKE 6: LOSING SIGHT OF YOUR COMPETITORS

Most customers will evaluate your offering against your competitors, weighing the features and price to decide which one to buy. You need to make sure your price will not push customers away by identifying and monitoring your strongest competitors in the market.

To develop competitive pricing, set a regular cadence to track competitors' pricing once a year. Evaluate the pricing of your strongest competitors and potential disruptors. Companies should consider competitor pricing as part of their overall differentiation.

SOLUTIONS

Competitive Analysis: Discover how you stack up against the competition and how to accurately price your offerings to attract customers.

Win / Loss Analysis: Explore the motivations behind customer and prospect decisions to develop effective pricing strategies.

Protect your company from pricing pitfalls with a data-driven pricing strategy.

IDENTIFY YOUR OPTIMAL PRICE

For more information regarding our services, contact info@hanoverresearch.com

P 202.559.0050 | www.hanoverresearch.com | @hanoverresearch