

Pricing Strategy

Maximising value

Synopsis

One of the best things that marketing can do to support sales is to maximise the value of the product or service to the customer. That requires marketing to understand the customer, present a complete solution and differentiate the solutions against your competitors. In this short article, *Maximising Value*, we discuss these issues and the importance of perceived value.

Introduction

It's relatively easy to compare the price of two products, even if they are complex pieces of telecommunications equipment, or a software solution. But comparing the value is more difficult because you have to take the perspective of the purchaser. In most complex or solution sales situations, value is derived from a complex mix of product and service. Sometimes it's easy to overlook features that deliver great value to the customer. For example, in many industries such as financial services and automotive production, downtime has very high cost so anything that maximises availability is of great value whether it is a better rivet, or an IP router built-in with redundancy.

The four key issues are:

1. Understanding the **customer**
2. **Differentiating** the product or service
3. Selling **solutions** rather than products
4. Understanding the **perceived value**

Maximising value – four key issues

1 The customer

If we understand what drives our customers business and the value of our product or service to them, then we can determine the price. But no customers are the same and we would like to:

- Identify the customers' needs
- Determine the value they put on their needs being met
- Select the customers where our product and services are most attractive; where we can get premium pricing.

This is where good segmentation is important; segmentation around the customers needs and business model, not about products or generic classifications. Price is intrinsically linked to segmentation, or at least it should be.

2 Differentiation

Customers won't pay a premium for a product which they think is the same. But sometimes suppliers focus on price pressure and the similarity of the products to competitors, pushing the product into being perceived as a commodity. Most products, certainly in IT and technology markets, are very far from being commodities.

Even the simplest products can be differentiated and value added. For example, gravel. How do you differentiate gravel: size, colour, mix, bags, usage, advice, purchase via internet, delivery (method, times).

But what's the strategy if you think your product is a commodity? Simple. Get out - unless you're the biggest player and the lowest cost producer. Companies push their products to be commodities by not differentiating.

3 Products or solutions

A good understanding of the market, and how to differentiate your product, will not lead to success if you haven't honed your offer to the customers needs. Questions that you need to ask include:

1. Has your offer been developed to satisfy the target segments needs, or is it just what you can supply.
2. Do you understand what each segment *really* needs and are able to provide the mix of product and service to satisfy that need?

In short, are you taking a solutions approach?

4 Perception of value

Value is the important measure. Customers will often pay more for greater perceived value and since, all things being equal, your costs will be similar to your competitors; this is where you can make money.

In some cases this can be quantified, for example how much does your solution save your customer, or how much more money does it help them to make, but it is often the perception of value that is equally important. You need to communicate your benefits to increase the perceived value through words, actions, look and feel, using all methods of communication.

It is worth working hard on understanding the benefits, quantifying if possible, and capturing the proof-points. The value is not always in the delivered product. For example, when we develop Sales Guides many clients say they value the workshop which is part of the process, not just the resulting deliverable.

Pricing

Pricing decisions depend heavily on an understanding of the customer, product differentiation, the offer and the perception of value, all factors that marketing should be driving. Pricing is also intrinsically linked to other core marketing tools such as segmentation and communications. It can vary with product, service or even with the route to market, as customers will perceive value from, for example, working with a local partner who can offer on-site support.

Recommended actions:

- Communicate your benefits with the customer to increase the perceived value: words, actions, look and feel. Use all methods of communication
- Work hard to understand and quantify the benefits, and capture as proof-points

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