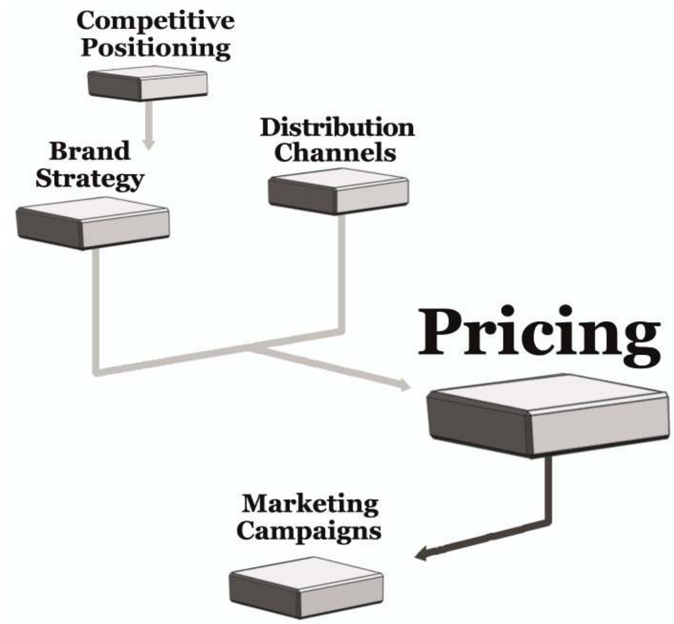


Pricing

Price is one of the classic "4 Ps" of marketing (product, **price**, place, promotion). Yet in many B2B companies, marketers aren't necessarily involved in pricing strategy.

Pricing is a complex subject – there are many factors to consider, both short- and long-term. For example, your prices need to

- Reflect the value you provide versus your competitors
- Consider what the market will truly pay for your offering
- Enable you to reach your revenue and market share goals
- Maximize your profits

When you offer a truly unique product or service with little direct competition, it can be challenging to establish your price. Put together a strong strategy and competitive analysis so you can see

- What your prospects might pay for other solutions to their problems
- Where your price should fall in relation to theirs

When your price, value proposition and competitive position are aligned, you're in the best situation to maximize revenue and profits. For example, here are three scenarios that show the relationship between these elements.

HIGHEST PRICE	AVERAGE PRICE	LOWEST PRICE
Company A is one of the best consulting firms in the world. Their consultants come from top schools, and they work with Fortune 100 clients to implement complex, large-scale projects. Company A's value proposition is product leadership. Their clients are buying the best expertise they can find, and they're less sensitive to price because they care most about getting top talent. Therefore, Company A's services can be priced as high or higher than their competitors.	Like Company A, Company B's value proposition is product leadership, but their secondary value prop is price. There's a lot of competition and their product is only slightly better than the alternatives. Company B's messages focus on product leadership with a secondary focus on price. They regularly review the market, run promotions, and adjust prices to maintain their competitive position. The company is also working to develop a premium product that can warrant a higher price.	The market cares most about price because the product is viewed as a commodity. Company C focuses on finding new ways to lower costs and pass savings on to customers. Their value proposition is operational efficiency and they consistently deliver the same product at a better price. Company C regularly evaluates their competitors' prices to make sure they're delivering on their promise. If a competitor runs a promotion, Company C counters with a better one.

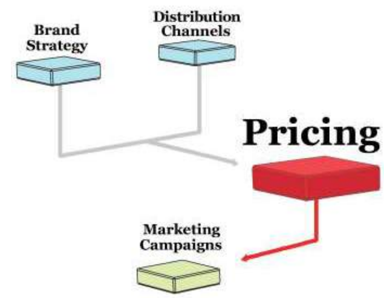
What would happen if these companies used a different pricing strategy?

HIGHEST PRICE	AVERAGE PRICE	LOWEST PRICE
By dropping their hourly rate, Company A gains more clients. They hire more consultants, but since they're charging less per hour, they can't afford the same top-tier talent. Company A is putting their "prestige" brand in jeopardy. However, if there isn't a strong market for prestige, this strategy may be the best one for the company long-term.	If Company B charges a premium price for an average product, they'll have a very difficult time generating interest in their product. Yet Company B may be able to implement a small price increase to raise revenue and profits; it depends how much more its customers are willing to spend. By analyzing price sensitivity and testing different prices, they can evaluate the strength and potential of this new strategy.	If Company C's prices rise in relation to those of their competitors, their sales will plummet – their market is shopping on price, not factors like product leadership or customer intimacy. If Company C cannot maintain its operational efficiency and cost leadership, it will need to develop new products or markets for its existing product.

Do you see your company in one of these scenarios?

BEST CASE	NEUTRAL CASE	WORST CASE
Your price completely supports your value proposition, enabling you to maximize your revenue and profit.	You don't necessarily have a pricing strategy but you're probably in the right range. You enter a moderate number of price negotiations and you win some, lose some. You wonder whether you could increase revenue and profit with either a price increase or decrease.	Your price is misaligned with your value proposition and what your market is willing to pay. Your prospects and customers are constantly fighting with you on price and it takes its toll on your team. You often have to discount heavily to make a sale.

Key concepts & steps



Before you begin

It's best to create your brand strategy and identify your distribution channels before you develop your pricing strategy. By doing so, you'll ensure that your pricing reflects your value proposition and reinforces your brand; you can also minimize pricing conflicts with your channel partners.

Match your pricing strategy to your value proposition

Your price sends a strong message to your market – it needs to be consistent with the value you're delivering.

- If your value proposition is operational efficiency, then your price needs to be extremely competitive.
- If your value proposition is product leadership or customer intimacy, a low price sends the wrong message. After all, if a luxury item isn't expensive, is it really a luxury?

Understand your cost structure and profitability goals

Companies calculate these costs differently, so verify the exact calculations your company uses for

- Cost of goods sold (COGS): the cost to physically produce a product or service
- Gross profit: the difference between the revenue you earn on a product and the cost to physically produce it

In addition, understand how much profit the company needs to generate. You'll be far more effective when considering discount promotions – you'll know exactly how low you can go and still be profitable.

Analyze your competitors' prices

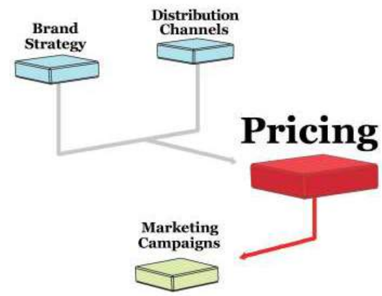
Look at a wide variety of direct and indirect competitors to gauge where your price falls. If your value proposition is operational efficiency, evaluate your competitors on a regular basis to ensure that you're continually competitive.

Determine price sensitivity

A higher price typically means lower volume. Yet you may generate more total revenue and/or profit with fewer units at the higher price; it depends on how sensitive your customers are to price fluctuations. If they're extremely sensitive, you may be better off at a much lower price with substantially greater volume.

Estimate how sensitive your customers are to fluctuations – it will help you determine the right price and volume combination. More importantly, you can estimate how a price change can impact your revenue.

What's next?



Once you've finalized your pricing strategy, you can plan and launch your **marketing campaigns**.