BIZCOMMUNITY

Pricing strategy and the power of perception

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Price is a section of business strategy that has a direct financial bearing on any business. Although other elements influence consumer choice, price is the ultimate factor facing consumers when choosing a product. Price is, therefore, the final barrier or motivation to purchase.

Credit: stevepb via Pixabay

With its massive influence over consumer decision, price and pricing strategy are vital to any business. Pricing is also a critical element of the marketing mix that generates revenue, which means that costs and pricing strategy must remain flexible and ready to accommodate changes in the market if businesses want to maximise profit.

Fundamentals of pricing strategy

As a strategy, businesses can optimise the price for short-term earnings (by discounting products to achieve rapid revenue growth) or carefully outline pricing for long-term purposes (by strengthening a brand reputation or evading a price war with your competition). When you are designing a price strategy, it is often far more complex than just testing prices to see what works.

Cost-based pricing: Cost-based pricing consolidates the cost of all the elements required in production, distribution, sales, and support, with a mark-up. This pricing model needs to consider volume shifts (i.e., cost changes with volume), as they can dramatically influence the final product's actual cost. Often cost-based pricing relies on a basic mark-up without regarding the consumer's perception or positioning.

Competitor-based pricing: The price point in competitor-based marketing is set based on what existing competitors charge. Businesses often use it in mass product categories or identify gaps in pricing ranges as potential segments (for example, there is soap on supermarket shelves at R5 and R15, so your price is R10). A danger in this form of pricing is that it can lead to marketing myopia because the focus moves onto the competitors and not the consumer.

Value-based pricing: Value-based pricing examines the product from a customer point of view. This pricing strategy tries to understand what customers feel is valuable and to align the cost accordingly. It is an ideal pricing strategy for differentiated products or new markets.

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Managing price perception

Most consumers are not aware of how much something costs to produce. They anchor much of their decision-making in their perception of value and the cost/benefit equation in their minds. As consumer marketers, we must understand the power of perception and use it to build a robust pricing strategy.

Price is an emotional experience rather than a logical one, with factors like affordability, desire and fear clouding how consumers decide. Customers often rationalise purchase decisions after buying as justification, especially with first-time purchases. You, therefore, cannot explore a pricing strategy without taking the behavioural psychology of the consumer into account.

A business can also change customer perception of price with the pricing choices it shows them. By offering three options and indicating the best or most popular choice, our framing does two things: it reduces the amount of thinking when trying to make the decision and provides the opportunity to move them to a slightly higher price-point by limiting the choices that they have available.

At its core, pricing is more complex and prone to variation than is possible to cover in one article, but it is a concept that is vital to understand the modern-day marketing landscape.

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