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Summary

Pricing Strategy

Setting a price for your product can be quite a challenging task. Here, there is no scope for guesswork, because if the price of your product is too high, then you would miss out on valuable sales, and if the price is too low, then you would miss out on valuable revenue.

Introduction to Product Pricing

The price of a product is valuable to customers, as they associate it with a brand, whereas for the businesses, it is a direct component that defines their profits and margins. Nevertheless, the same pricing strategy cannot be adopted for all kinds of products. So, briefly, a product/service can be broadly classified into four major categories based on the volumes that you sell and the margins that you achieve. These categories are summarised in the table given below.

High Volumes, Low Margins Commodity products	High Volumes, High Margins Products with great value propositions
Low Volumes, Low Margins Failed products	Low Volumes, High Margins Luxury products

Your aim should be to move towards creating products with high volumes and high margins and not products with low volumes and low margins.

When to rethink the pricing strategy for your product?

Some market scenarios where you can rethink the pricing strategy for your product are:

1. When the product can be scaled in the market
2. When new competitors can affect your market position
3. When competition increases in the market
4. When alternatives are available to customers

Impact of Internal and External Factors on Pricing

The pricing of your product can be governed by internal as well as external factors. Internal factors are those that are within the control of your business, whereas external factors are those that cannot be controlled by your business. The table given below lists these factors for a business.

External Factors that Affect Pricing Strategy	Customer and price elasticity a. Target customer segment can directly affect your pricing b. Willingness of customers to pay a price for a given product
	Competition a. Increase in competition reduces the pricing power of a company
	Stage of the market a. Startups burn cash initially to attract customers b. Environmental factors and government regulations

Internal Factors that Affect Pricing Strategy	Product cost a. Fixed and variable costs to produce goods in the market b. Amount of margins that can be maintained
	Revenue and profit targets a. Define road to profitability b. If targets are aggressive, then let go of your market share by reducing burns
	Investment budgets a. Budget allocated to other tasks, such as sales and marketing b. A high-priced product can compensate for burns better than a low-priced product

Different Pricing Strategies

Some common pricing strategies are given in the table below.

Cost-Plus Pricing	The price of the product is the summation of its production cost and the margins required over it.
Demand-Based Pricing	The price of the product varies with the market and the customer demand.
High-Low Pricing	The product is priced high initially, but its price is reduced later by offering discounts.
Value-Based Pricing	The price of the product is based on what the customers are willing to pay.
Premium Pricing	The product is priced high as the aim is to deliver high value to the customers, with the perception of luxury.
Quota-Based Pricing	The price of the product is associated with its quantity or volume.
Psychological Pricing	The price of the product is set lesser than a whole number with the perception of lower pricing.
Penetration Pricing	Companies attract customers with high discounts and lower prices to penetrate the market.
Project-Based Pricing	Two parties agree on a particular project at a fixed cost.
Tiered Pricing	Product offering varies so as to offer a more customised pricing to the target segment.

Deciding the Right Pricing Strategy

There are some steps that you can follow to decide the pricing strategy for your product, such as:

1. Understand the customer needs and how your product fulfils those needs
2. Select your pricing strategy based on the key differentiating factors of your product
3. Evaluate the product cost and plan long-term goals
4. Finalise the price based on multiple factors such as volumes and margins
5. Iterate until you arrive at the optimal pricing strategy for your product