3 Ecommerce Pricing Strategies To Have A Profitable Store

Are you sure you know the psychology behind creating successful eCommerce pricing strategies?

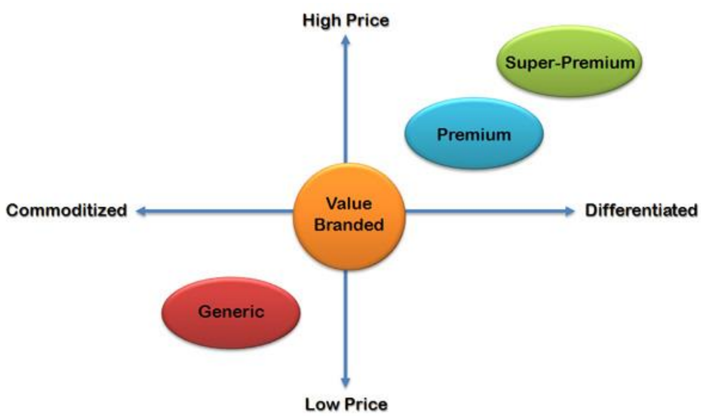
For most eCommerce marketers, pricing is a big challenge.

To a large extent, the price tag of any product determines how excited or discouraged the customers will feel.

"It's probably the toughest thing there is to do," says Charles Toftoy, associate professor of management science at George Washington University. *"It's part art and part science."*

When you're marketing online, you can't afford to live with the consequences that come as a result of not figuring the right eCommerce pricing strategy.

It's true that several factors affect product pricing, but you need to focus on the core ones (more on this later).



According to Burc Tanir, CEO and Co-founder of Prisync, a competitor price tracking application for eCommerce brands…

"The main factor in eCommerce competition is the pricing of the products."

One of the major reasons why most brands don't achieve their revenue goals isn't because their products are below standard – but the price.

For example, if I created a software and because I'm not well informed about the price that will be ideal for customers, I might sell it for $47, whereas pricing it at $79 – $99 would have generated more conversions.

Ecommerce marketers drive traffic and potential customers from diverse sources. To make smarter pricing decisions, it's important to collect user data from known sources, and use them right.

In this article, I will share with you three proven eCommerce pricing strategies to help you price your products more effectively.

1. Hack the pricing process

An understanding of the pricing process can help you stay off the radar, and profit from your product.

When there's fierce competition in a certain niche or industry, consumers will be on the hunt for the best products that gives the highest value – at a reasonable price.

The price may not be reasonable to you, but it's got to be for your customer. After all, you aren't the one purchasing your product – but the customers.

And for you to achieve this, you can use the **cost-based pricing** process. It's the best eCommerce pricing strategy at the teething phase of your business. But as time flies, you think about adopting the value-based pricing.

The cost-based pricing puts into consideration the product cost, the overhead web-shop spending, and even the logistics that went into product creation.

For most eCommerce brands, their major concern is studying the market to know the standard pricing for their type of product.

Of course, there's nothing wrong with competitive research, but it should come after noting your overhead cost.

As you already know, it's easy to start an eCommerce business these days. On one hand, that's great. On the other hand, the competitive eCommerce market exposes a lot of loopholes for bargain buyers.

Bargain buyers are the ones that hunt for the cheapest price.

You don't want to have bargain consumers lurking at your online store. *Because what they really care about isn't value, but bargain.*

Using competitive intelligence in your pricing model can be beneficial.

With nearly a million active eCommerce companies already, you need a smarter way to meet this need of aligning your product price to suit the buyer – at the same time improve your revenue.

In economics, we learned that as demand goes up, price follows suit. Yes, it may seem like a basic concept, but it can guide you in the pricing process.

Since eCommerce is a competitive industry, it's your responsibility to find a sweet spot between demand and price.

Here's a Demand Curve chart that clearly illustrates the process:

Studying the market is important. It gives you an unfair advantage over other brands that don't do it. But, it's not always advisable to lower your pricing because of the competition.

What it seems like a great solution is starting out with a lower pricing in order to penetrate the market. Then, when you've gained traction and customers are trusting your brand, you can scale from there.

Remember that increasing your price may drive away some of the bargain customers that you already have.

But it's okay for these people to go. As long as the reason for increasing your product price isn't tied primarily to your selfish interest (e.g., making more money), your brand will continue to thrive.

2.Create eCommerce pricing strategies that fit the customers' budget

We've established that you want to attract customers who crave for value, rather than bargain. Now, let's take it a step further.

Burc Tanir made an interesting point during a webinar session at Ecomm Day 2016. He said that *"You shouldn't always be looking at things at the product level, but at the general level."*

Obviously, eCommerce brands that don't look at the details fall into either one of these problems:

i) Under-pricing: This is the scenario where you price your products far too low, which, in turn, sends negative signals that will produce a deadly effect on your bottom line.

Over and over again, under-pricing a product doesn't help – not even in a down economy. At the very core, what you should focus on is increasing the value of your product – not lowering the cost.

ii) Overpricing: See, don't make the mistake of overpricing your product, as it would have a detrimental effect on your brand.

You've got to understand that your customers have access to the competition. If your product price is too high (beyond their budget), they will look at your competitor's pricing.

If you're still striving to penetrate the market, you need to strike a good balance between your price and demand.

The initial price of your product may not offset all the expenses you put into its creation.

According to Charles Toftoy, associate professor of management science at George Washington University, you should "put yourself in the customer's shoes. What would be a fair price to you?"

That said, one psychological effect of your pricing strategy that's vital is what it does to your audience.

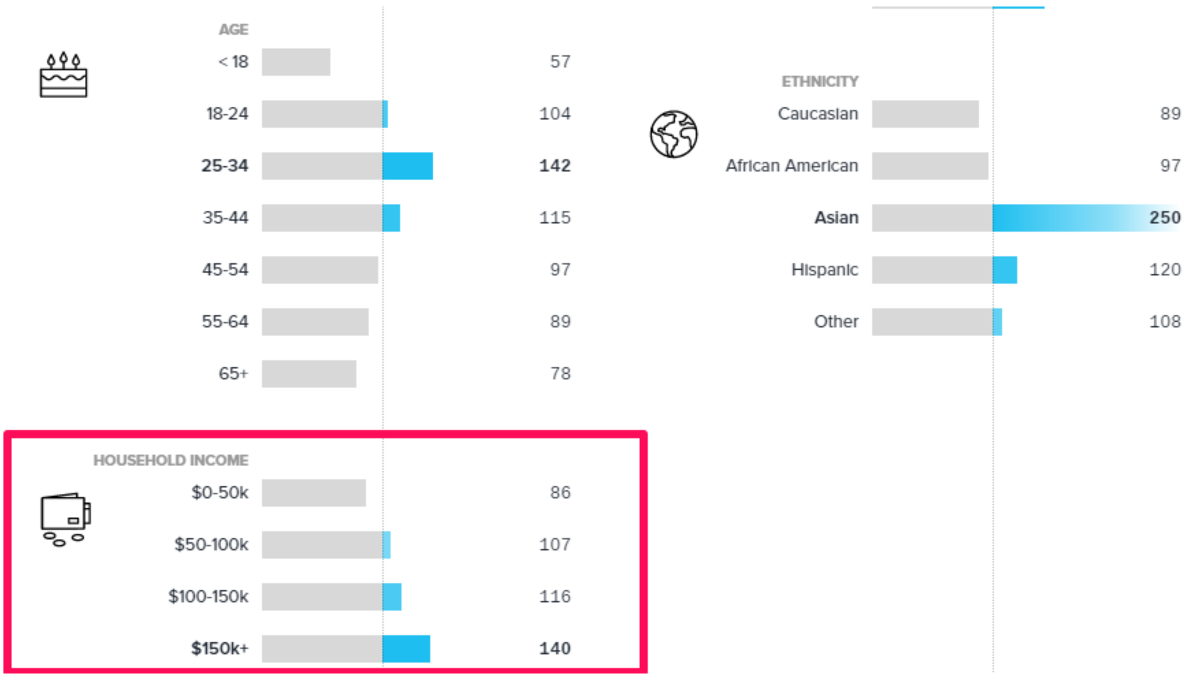
See, the price of your product can actually determine the customer's perceived value of your product (and how they make their buying decisions).

Basically, you want to offer customers a pricing option that fits their budget. And for this to work as planned, you need to conduct a market study first. You could simply send a survey to potential customers who subscribed to your email list.

You could also use a quiz to determine their income level.

Using Quantcast can reveal a lot about your audience. Knowing the household income can guide you when offering a pricing option that fits your ideal customers.

For example, here's the Household income of the audience at Yelp:



Moving on, don't price your products based on "useless" metrics. Get to understand what your audience thinks – especially when it's in connection with their income level.

At a glance, you could tell that if the price of a relevant product that Yelp's audience will benefit from falls way outside of the Household income, the possibility of selling so many copies (assuming it's an ebook or tool) will be low.

In the video below, Dan Ariely gives a clear picture of the pricing situation encountered over on The Economist.

Dan clearly showed that there were 3 unique price points:

- A web-only subscription for $59
- A print-only subscription for $125
- A web + print subscription for $125

To Dan, the second pricing doesn't make any sense. He further stressed that the customer could be better off getting the print + web for the same price (i.e., $125).

In an interesting study, he examines the impact of removing the middle price.

Well, although the middle price seems "useless" and doesn't provide any perceived value to the customers, it was the best pricing model ever. Why?

The reason is because it helped steer "bargain customers" away from not making decisions, and actually get them to look at the value of the package.

Don’t get me wrong. I’m not recommending you to use any seemingly useless prices on your products, but you should be creative and understand that the most of the customers are out for a bargain.

In reality, you don’t want these people. You can’t command them to leave your website or store, but you can use these psychological triggers to redirect their minds towards “value,” instead of “bargain.”

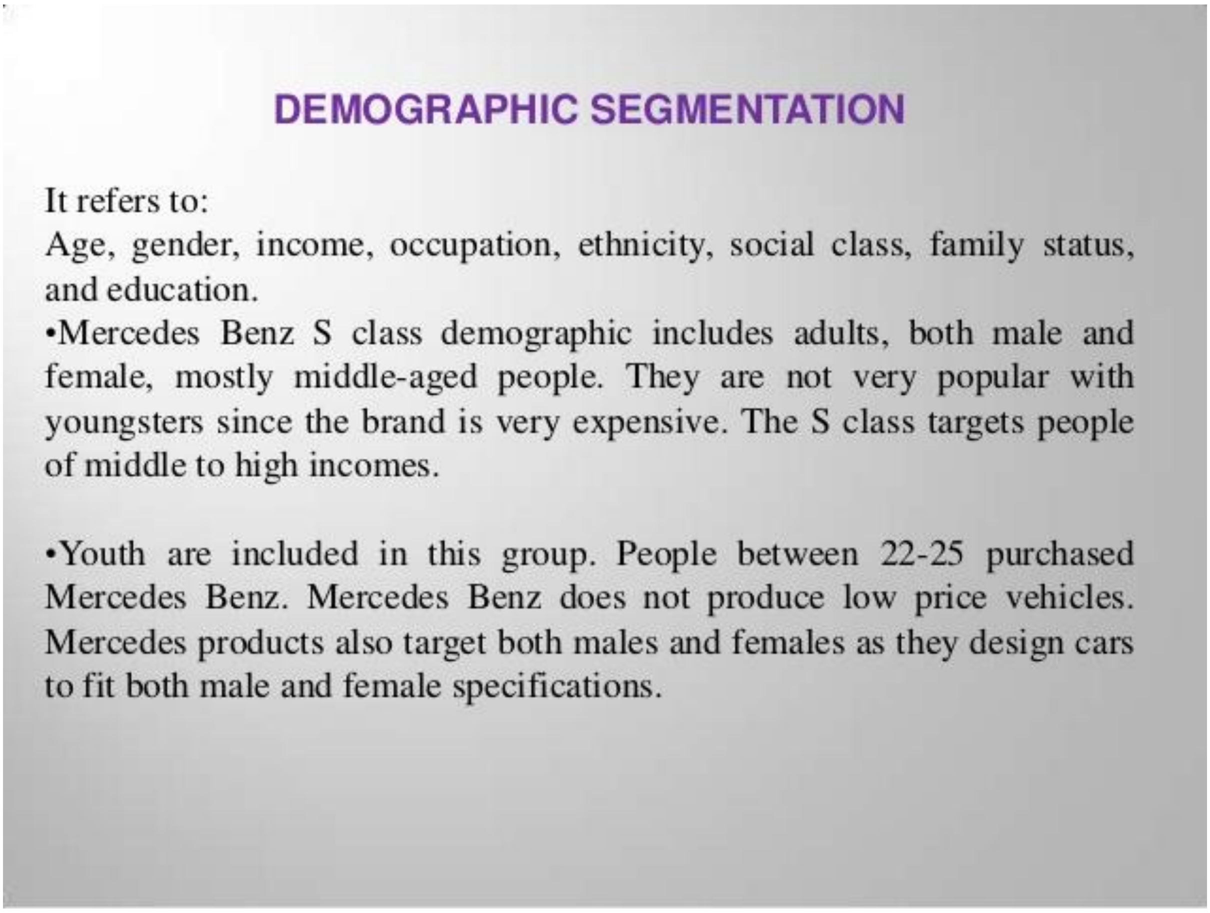
3. Adopt demographic-based pricing strategies

So you truly desire to get the price of your product right?

Okay, I’m sure this next strategy will help you.

The best pricing approach is that which stems from a deep understanding of your audience.

You may need to segment your audience based on demographic distribution.



Note that basing your price on competitor or cost will hinder your long-term success. Because it doesn’t look at the actual value that your product offers the customer.

Other intangibles like customer demand, goodwill, brand value, etc., are left out of the equation as well.

The demographic pricing model is simple:

Price your product to suit your target audience.

For example, if you're selling running shoes to rich entrepreneurs, you can charge $500 – $1,000 for products that would be sold at $150. To a college graduate who is still in debt, that price tag is way out of the envelope.

But you shouldn't bother about that.

Because your pricing is in the same class as your target audience.

If you make the mistake of under-pricing your product, these wealthy entrepreneurs would simply assume that your product's quality is subpar.

And this can affect your sales.

Conclusion

All in all, the price of your product will affect your sales and revenue. But more important, it'll improve or mar customer's perceived value of your product.

The impact that pricing has on your product goes beyond making immediate sales or winning customers – it's long-term. It infiltrates into your brand and gives it a facelift.

The choice is yours to make. Yes, it's obvious that there are several factors to consider when pricing your product online, but pay more attention to the value that you'll bring your customers.

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