

The Importance of Pricing to Small Business Owners

By Jeffrey Wilke • Business Consultant

Price is an important element of the marketing mix and happens to be the only one that produces revenue; the other elements produce costs. In addition, price is a powerful tool used to convey the company's image and its position within the market. For instance, a company may decide to position itself as a low cost discount provider, or an upscale provider with high price points or perhaps a focused provider serving only narrow segments. Either way, it's crucial that the company formulates an effective pricing strategy suitable to its business.

No limits exist to the number of variations in pricing strategies and tactics used, but these strategies must be in line with the company's marketing plan and objectives. Entrepreneurs should consider the following factors and how they may interact with one another when determining the proper pricing strategy for their business:

- Understand the cost structure of your business by calculating the company's variable and fixed costs. Use this information to determine your price floor.
- Conduct research to determine your price ceiling and the price sensitivity of your customers.
- Analyze the pricing strategies of competitors as well as changes of supply and demand in the marketplace.
- Identify the special value provided by your company's products and/or services. In addition, decide what image the company needs to portray in the minds of its customers.
- Determine how the nature of your business and the industry in which it operates affects pricing.

During a declining economy or in a mature market, small business owners may become tempted to reduce prices. This may not be the best approach

and could lead to unnecessary price wars, reduced profits and harm to the company's image. As an alternative, try the following tactics:

- Try to remain neutral.
- Evaluate and understand the true value that your company offers to customers.
- Use the results of your value analysis to build pricing confidence within your company.
- Communicate the value you offer to your customers. In other words, focus on selling value instead of price.
- Avoid depending on discount pricing to increase sales and profits. Instead, increase efficiency and control costs throughout your supply chain to add greater value to your company's products and/or services.
- Avoid the follow-the-leader pricing strategy. Always strive to differentiate your company and create a unique image in the eyes of your customer.



Remember small business owners face an ever changing business environment, so your pricing strategy should never remain fixed. Continually monitor your business environment and trends in the marketplace, and adjust your pricing strategy accordingly. We've only scratched the surface of how to effectively price your product or service, and the importance of doing so.

As entrepreneurs work to develop and grow their businesses they should keep in mind that pricing plays a critical role in the success of their company.

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