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Five Cardinal Rules of Pricing Research

Pricing Research

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Pricing products and services has been compared by one manager to “throwing darts at a spinning dart board – blindfolded.” Yet pricing provides the greatest leverage to an organization’s profitability. For example, if the average FP500 firm raises its prices by just one per cent (while keeping costs and volume constant), its profit will increase approximately 12 per cent. So clearly, pricing has a dramatic impact on the bottom line – but how do you anchor the dart board, remove the blindfold, and hit the bull’s-eye? One of the keys is conducting effective pricing research. Following are the “Five Cardinal Rules of Pricing Research.”

1. The Buying process is critical

Understand the who, what, why, where, when and how behind your customers’ pricing decisions. To avoid receiving poor pricing information, focus on capturing some of the following elements of the buying process into the research design: the buying occasion – when and why they are buying; frequency of purchase; key decision maker; and length of the buying process.

2. Not all tools are created equally

There are a number of common methods for collecting pricing data, but no two are exactly alike and no one method can be used all the time. The key is to match the data collection method to the pricing problem for which you are seeking input.

3. Understand how your customers perceive price

Price often plays a highly emotional role in the customer’s buying decision. When the price is too high, customer’s experience “sticker shock” and either defect to another supplier or wait until the price comes down before they purchase. On the other hand, a high price can sometimes signal a prestigious image; the customer is filled with a sense of exclusivity and belonging, and is willing to pay premium prices. In both cases, the price is perceived as high, but the customer’s reaction in each is different. Therefore, understanding how your customers view price in the context of their purchase is critical to effective pricing research design.

4. Use research to sell – not just set – price

Many organizations use research to make a pricing decision, but don't share that information with the sales force to help them successfully execute the pricing strategy. Educating the sales force has several advantages: it facilitates buy-in to the pricing decision; allows for pricing objections and concerns to be heard and dealt with; and empowers sales reps with the confidence to sell the price, based on the facts.

5. Use segmentation to select – or reject – your customers

Price segmentation is often used to identify which group of customers is the "best" to serve. Although these customers are targeted, many companies can't resist the temptation to sell their product or service to the whole market anyway, in a misguided attempt to grab volume. Consequently, these organizations get dragged down by serving the unprofitable "cherry pickers" at the expense of their profitable "core customers."

By using pricing research and applying this framework to every pricing initiative, you will be able to make better pricing decisions and dramatically boost profits.

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