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# **Pricing Research - Why and When?**

*Pricing Research*



## Pricing Research - Why and When?

How do you know when your pricing is right?

Many companies are turning to pricing research to optimize their profit. And with good reason - it's a science that is proving to be increasingly accurate when used in the appropriate way. Considering the impact of pricing on profitability, this is a tool that companies cannot afford to ignore.

Take, for example, one well-known consumer products company that was mired in a key pricing threshold of 99 Cents for one of its products. Since the company wasn't making money on the product at that price, executives wondered what would happen if they were to raise the price beyond that threshold. And how high should they go - \$1.02, \$1.09, \$1.20? Pricing research conducted by Pricing Solutions accurately predicted that, once the \$1 threshold was surpassed, volume did not change significantly until the price hit \$1.29. Consequently, the company raised its price to \$1.29, and made a lot more money.

Yet many organizations still shy away from pricing research, citing the cost and what they perceive as an inherent bias for customers to lie about pricing preferences. In many cases, their skepticism is well founded because there have been many research methods used over the years that were not good at predicting price sensitivity or value.

The good news is that there are many new developments in pricing research, and its accuracy has been proven time and again in studies that Pricing Solutions has done.

So if you've decided you want to benefit from pricing research, here are some general guidelines to keep in mind:

- When it comes to new products, it's a good idea to do pricing research early in the development process. That way, you can practice a "design-to-price" philosophy, delivering the most value added elements of a product. Pricing research will help you understand what your customers are willing to pay up front, and you can make more profitable design decisions.



- The methods used in pricing research vary considerably, depending on whether it's a business-to-business (B2B) or a business-to-consumer (B2C) application. With B2B applications, qualitative (discussion-based) research and product tests are done to develop economic models, whereas with B2C applications, quantitative (survey-based) research can be used to develop price optimization models.
- Never ask customers: "What would you be willing to pay?" Direct methods that explicitly ask a customer what he/she is willing to pay feeds into the inherent bias to lie. Most people underestimate what they would be willing to pay; others, by contrast, consider it a test of their loyalty, and overestimate. Indirect methods that focus on other issues, besides price, are more effective.
- Pricing research data should help you decide which segments of the market you are going to target, and, perhaps more importantly, which ones you are NOT going to pursue.
- Once your pricing strategy has been set, the results of the research should be fed to the sales force so they can use it to help them sell at the recommended price. If they have access to the research, they will know which customers you want to target, and which ones you don't – and why. Although companies usually provide their sales representatives with product education, that seldom relates to what customers are willing to pay. As a result, salespeople often claim prices are too high. So if you want to reduce your stress, share your pricing research with your sales force.
- Build an approach to pricing research that helps you make ongoing decisions on how, when, and where to use it. That way, you'll get the most return on your research-dollar investment.

Pricing research has been proven to be highly valuable in helping many companies determine when the price is right. And when the price is right, profit soars.

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**Corporate Headquarters:**

Pricing Solutions Ltd., 38 Wellington Street East, Suite 200, Toronto, Ontario, Canada M5E 1C7