



Pricing for Researchers: **New Product Pricing Research**

Introduction

- For the next two newsletters we will be taking a look at new product pricing research.
- We will address this issue in two stages:
 1. How pricing research should be tied into the product development process?
 2. What methods of pricing research are effective for new offerings?

How pricing research should be tied into the product development process?

Our perspective:

- Most companies conduct pricing research way too late in product development cycle.
- Implementing value based pricing research at the right time will drive your competitive advantage by increasing the new product's success rate.
- Most companies focus on building products customers like and not enough on creating products for which they will pay.
- Typically companies do pricing research after the product has been developed.
- Most companies now have a gated process in which a product is evaluated at various stages to determine whether development should continue or not.

- What is missing in most of these gated processes is identifying the customer's willingness to pay for the new offering.
- Instead, most companies forgo pricing research and use their costs as the primary driver for determining price.
- The typical outcome of a cost driven pricing process is sales do not meet expectations and there is pushback on price which the company is not equipped to handle.
- This is a losing formula.

How things are changing:

- Leading companies such as 3M and J&J are doing a much better job of establishing value at the early stages of the product development process.
- The key change they have implemented is to conduct pricing research to establish the value to the target markets and to see whether there is a need that customers are sufficiently willing to pay for that makes the new offering commercially viable at a much earlier stage in the product development process.



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- However, if you are going to conduct research at an earlier stage there are a number of challenges that must be addressed:

Speed – the research must be conducted at lightning speed...companies' feel they can't wait to find out if they have a winner...they need to get to market immediately!

Budget – companies have many new initiatives and funding pricing research for all of them is expensive.

Results – the research should lead to an improved success rate. If you are not seeing a better hit rate then the research is not delivering the intended benefits.

Accuracy – Trust in the findings is critical. You may really believe in a new offering and in the importance of conducting pricing research; but what if the pricing research says nobody will pay enough to make it profitable?

Summary

Leading edge pricers are beginning to conduct pricing research at a much earlier stage in their new product development process. The benefits of doing so are significant as they are able to assess the economic viability of new offerings before investing huge sums of money in development.

The next Pricing For Researchers bulletin will focus on what pricing research methods are best suited to deliver speed, budget, accuracy and results.