

# Define Your Pricing Strategy

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**Note** – This is one from a sequence of exercises from the Distribution Channels subject outlined in the Strategic Marketing Process eBook. Download the free e-book [www.growthpanel.com/marketing-tools/index.html](http://www.growthpanel.com/marketing-tools/index.html) and subscribe to this subject at [www.growthpanel.com/versions/get-started.html](http://www.growthpanel.com/versions/get-started.html) to download from Growth Panel’s Intelligent Marketing Platform.

*Some of the graphics in this PDF might not display properly.*

**Pricing is a complex subject – there are many factors to consider, both short- and long-term.** For example, your prices need to

- ▶ Reflect the value you provide versus your competitors
- ▶ Consider what the market will truly pay for your offering
- ▶ Enable you to reach your revenue and market share goals
- ▶ Maximize your profits

When you offer a truly unique product or service with little direct competition, it can be challenging to establish your price. Put together a strong strategy and competitive analysis so you can see

- ▶ What your prospects might pay for other solutions to their problems
- ▶ Where your price should fall in relation to theirs

**When your price, value proposition and competitive positioning are aligned, you’re in the best situation to maximize revenue and profits.** Your price sends a strong message to your market – it needs to be consistent with the value you’re delivering.

- ▶ If your value proposition is operational efficiency, then your price needs to be extremely competitive.
- ▶ If your value proposition is product leadership or customer intimacy, a low price sends the wrong message. After all, if a luxury item isn’t expensive, is it really a luxury?

## Summary

EXERCISE SUMMARY	
<b>When to Address</b>	If you’re a new company or existing company launching your product to market

	If you're re-evaluating your pricing for your existing product
<b>Who Should Participate</b>	<p>Business leaders: company founders, owners, presidents and vice presidents</p> <p>Marketing and sales leaders</p> <p>Financial leaders</p> <p>Product managers</p> <p>Channel managers</p>
<b>Where to Use the Results</b>	Your pricing strategy will deliver guidance as you determine your final price.
<b>Why it's Important</b>	Your pricing strategy plays an important role in your ability to gain market share.
<b>What Builds Upon it</b>	Your pricing should reflect your value proposition.
<b>Timeframe to Completion</b>	If you have completed Competitive Positioning and chosen your value proposition, this should take between 30 minutes to an hour.
<b>Potential Business Impact</b>	Medium to high. The right pricing strategy can help you maximize profits and your market penetration.
<b>Deliverable</b>	You'll match your value proposition to a pricing strategy, then decide on the pricing strategy to pursue.
<b>Next Steps</b>	You'll determine your cost of goods and set targets for profitability.

<b>Target Completion Date</b>	
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<b>PARTICIPANTS</b>

PARTICIPANTS

TASKS	PERSON RESPONSIBLE	DUE DATE

**Notes**

# Define Your Pricing Strategy

## What to Complete

1. MATCH PRICING STRATEGY TO VALUE PROPOSITION
2. DEFINE PRICING STRATEGY

## Where it Fits in Pricing

Match Pricing Strategy to Value Proposition  
Define Pricing Strategy



- Determine Cost of Goods Sold
- Set Price Floor
- Review Competitors' Prices
- Determine Price
- Analyze Competitor Price Changes
- Determine Competitor Price Change Response
- Gather Price Sensitivity Data
- Determine Price Elasticity
- Find Optimal Price
- Calculate Profitability on a Single Deal

### 1. MATCH PRICING STRATEGY TO VALUE PROPOSITION

To develop your pricing strategy, start by looking at the major variables such as your value proposition, stage of the market, and revenue/profit goals.

<b>Product or service</b>	
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First, what's your value proposition? [Competitive Positioning can help]

<b>Value Proposition</b>	<input type="checkbox"/> Operational excellence/cost leadership <input type="checkbox"/> Product leadership/innovation <input type="checkbox"/> Customer intimacy/solutions
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Next, determine which pricing strategy matches your value proposition:

If your value proposition is	Strategy to align value proposition and pricing strategy
<b>Cost Efficiency/Price</b>	When you're competing on price, your price needs to be similar or lower than that of your competitors.
<b>Product Leadership/ Innovation or Customer Intimacy/Solutions</b>	Your pricing strategy will depend on the maturity of the market and your market share goals.

Now review your market stage and define your market share goals:

How mature is your market?	What are your market share goals?	Strategy recommendation
<input type="checkbox"/> <b>Mature:</b> There are a number of competitors dominating the market and little differentiation between their products.	<input type="checkbox"/> <b>Growth</b>	<b>To grow in a mature market, your price needs to be substantially lower than your competitors.</b>
	<input type="checkbox"/> <b>Maintain current position</b>	<b>You may need to change your pricing in reaction to competitive pressures.</b>
	<input type="checkbox"/> <b>Maximize profit</b> rather than focus on market share	<b>You need to figure out the price at which you can maximize your profit.</b>
<input type="checkbox"/> <b>Growth or early stage</b>	<input type="checkbox"/> <b>Aggressive growth</b>	If you're trying to grow very aggressively in a young market, <b>you may want to price slightly lower than you would otherwise.</b>
	<input type="checkbox"/> <b>Grow with the market/average pace</b>	<b>Your price can be similar to your competitors.</b>

VALUE PROPOSITION	MARKET MATURITY	MARKET SHARE GOALS	STRATEGY RECOMMENDATION

VALUE PROPOSITION	MARKET MATURITY	MARKET SHARE GOALS	STRATEGY RECOMMENDATION

**What is your result? If your product is already in the marketplace, does your current pricing match your value proposition and your market share goals?**

## 2. DEFINE PRICING STRATEGY

The previous step should give you a pretty clear picture of the pricing strategy you should pursue. Are there any other circumstances to factor in? Examples could include short-term economic conditions, competitor changes, or new market developments. You short-term prices can deviate from your overall pricing strategy, but this can be tricky and needs to have a defined end-point.

Here are some suggestions:

Pricing strategy	Next Steps

<p><b>Compete on price.</b> Your price needs to be similar or lower than that of your competitors.</p>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Figure out your cost structure [Exercise 61]</li> <li><input type="checkbox"/> Evaluate your main competitors' prices [Exercise 62]</li> </ul> <p>You'll then have a range in which your price should fall. Your brand strategy should guide your final decision.</p>
<p><b>Grow in a mature market.</b> Your price needs to be substantially lower than your competitors.</p>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Document your cost structure [Exercise 61]</li> <li><input type="checkbox"/> Capture your main competitors' prices [Exercise 62]</li> <li><input type="checkbox"/> Determine how far underneath the market you can be and still be profitable [Exercise 62]</li> <li><input type="checkbox"/> Recommend a price [Exercise 62]</li> </ul>
<p><b>React to competitive pressures.</b> You may need to change your price.</p>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Document your cost structure [Exercise 61]</li> <li><input type="checkbox"/> Capture your main competitors' prices</li> <li><input type="checkbox"/> Determine an acceptable range of prices that still meets your profit goals [Exercise 62]</li> <li><input type="checkbox"/> Recommend a price [Exercise 62]</li> </ul>
<p><b>Maximize profit.</b> You need to figure out the price at which you can maximize your profit.</p>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Document your cost structure [Exercise 61]</li> <li><input type="checkbox"/> Capture your main competitors' prices [Exercise 62]</li> <li><input type="checkbox"/> Estimate how sensitive your market is to price fluctuations [Exercise 65]</li> <li><input type="checkbox"/> Calculate the price and volume that will maximize profit [Exercise 65]</li> <li><input type="checkbox"/> Recommend a price [Exercise 62]</li> </ul>

<p><b>Grow aggressively.</b> If you're trying to grow very aggressively in a young market, you may want to price slightly lower than you would otherwise.</p>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Document your cost structure [Exercise 61]</li> <li><input type="checkbox"/> Capture your main competitors' prices [Exercise 62]</li> <li><input type="checkbox"/> Determine an acceptable range of prices that still meets your profit goals [Exercise 62]</li> <li><input type="checkbox"/> Recommend a price [Exercise 62]</li> </ul>
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PRICING STRATEGY TO PURSUE	MARKET SHARE GOALS	NEXT STEPS

# Define Your Pricing Strategy

## Report

### 1. DEFINE PRICING STRATEGY

This report summarizes our results from completing Exercise 60 – Pricing: Define Your Pricing Strategy.

### 1. DEFINE PRICING STRATEGY

<b>Product or service</b>	
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Our pricing strategy needs to reflect our value proposition, which is:

<b>Value Proposition</b>	
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Our market stage and market share goals will influence our pricing strategy:

<b>Market Stage</b>	
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<b>Market Share Goals</b>	
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Our pricing strategy is to:

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