

# HOW TO DRIVE PRICING STRATEGY

To Accelerate Sales & EBIT  
Growth



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# DEAR BUSINESS OWNER

Knowing the best prices for your products and services is not easy for business owners because there's really not that much help or support out there for you. From super-expensive consultant fees and inappropriate pricing software, or misleading advice on the internet, how do you ever find professional pricing resources that will meet your needs and help you generate profitable and accelerated sales growth?

You start by reading this Business Owner Guide to Product & Services Pricing. In this fact-filled booklet, you'll discover how to avoid common pricing mistakes, and why you really need to destroy your current list price immediately.... well let's not go there!

We wrote this guide to help you better understand price setting, management and support services. Now, with this information, you can make more informed and intelligent pricing decisions that won't risk sales growth.

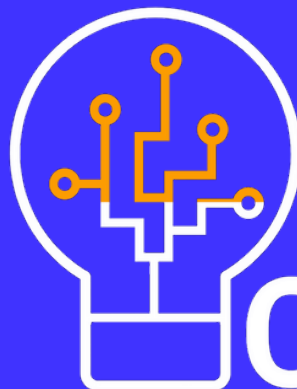
If you have any questions about pricing or any other commercial matter, please reach out to us.

You're invited to call us on (+61) 02 9000 1115 or email at [team@valueculture.com.au](mailto:team@valueculture.com.au)

We've dedicated our business to supporting small and medium sized businesses improve pricing for accelerated sales growth. We'll be happy to help you!

Yours sincerely,

Value Culture Team  
Value Culture Pty. Ltd.



# VALUE CULTURE

[www.valueculture.com](http://www.valueculture.com)

# HOW TO AVOID COMMON PRICING MISTAKES!!

## MISTAKE #1:

**COMPETING ON LOWEST PRICE.** Most business owners at some point or another will choose to slash prices. This may be to keep or win business or maybe an attempt to drive volumes up. This very rarely works out well in the long run. Lowest price invites your customers to view your products as a commodity and your business as a cheap alternative. Low prices distract your customers from the value you offer. Low prices don't guarantee volume gains and can even do the opposite!

## MISTAKE #2:

**COST PLUS PRICING.** Many business owners set prices by averaging their product costs and adding the same simplistic mark up percentage on top of all products. This may be an easy way to set pricing for time-poor business owners. But it is also a highly inaccurate pricing method and exposes your business to risk. At the end of the day, cost plus does not take into account: what your customers are willing to pay, the impact of volume changes on cost, and competitive price action in the market. This type of pricing means you are losing your hard earned money down the drain!

## MISTAKE #3:

**OVERLOOKING YOUR PRICING POWER.** Most of your products have a lower and upper price limit. The upper limit is called the price ceiling and lower limit is the price floor. Most business owners only explore the limits of their pricing based on their own experience or view of the market. Also, what the market will bear may not be the actual price ceiling for a product you sell. When you don't explore what your customers' value about your business and products, you are actually capping your revenue potential.

## MISTAKE #4:

**FOLLOWING YOUR COMPETITORS.** Benchmarking your prices against your competitors prices may seem like a good move when you're got no idea what the price of a new product should be! However, price benchmarking simply compares the numbers - it goes no deeper than that! Which means you are forgetting one very important point: Your business and your competitors' businesses are different and so are your cost structures. Be very careful that you are not putting up pricing boundaries that are preventing you from exploring your full pricing power or following a competitor who is going for a strategy you may not want to follow!



# 6 COSTLY MISCONCEPTIONS ABOUT PRICING!

**MISCONCEPTION #1: PRICING IS NOT A PRIORITY NOW; WE NEED TO FOCUS ON GROWING THE BUSINESS.** Small business owners are busy people. They fix more problems by 9 am on a Monday morning than most people do in a week. Often they are so busy that they don't know how much profit they're actually making/losing each day due to how they price. Some even haven't considered it. But when they find out that their pricing was the problem for substantial customer churn, volume and margin loss, it can be a shock to the system. Don't assume business is slow because of the economy or competition. Sometimes, the truth is closer to home. But if it is your pricing, then this means you can do something about it!

**MISCONCEPTION #2: IF WE ARE MORE EXPENSIVE THAN OUR COMPETITORS OUR CUSTOMERS WON'T BUY FROM US.** Your loyal customers don't just buy from you just because of your pricing, they buy from you because they trust your products; they trust you; and they know your offer is for real - e.g., the product won't fail, break on them or arrive late! Your business is the summation of the value you offer to customers. Not a price point. Market that!

**MISCONCEPTION #3: PRICING IS TOO HARD.** An exam is easy when you know the answers. Likewise, pricing is easy when you have the tools and frameworks and advice to guide you and prevent you from making costly mistakes! If you are struggling, then ask for help and get the support you need!

**MISCONCEPTION #4: PRICING IS EASY.** If you are making more revenue and margin from your pricing without losing volume, then you are blessed with an innate talent for pricing that comes easy to you! However, when most business owners say pricing is easy they actually mean guessing is easy. Sometimes a gut feel estimate on price can be about right, but really this is a poker game. What gives us all confidence is evidence, facts, sales growth and money in the bank. If we guess our product prices, we will feel uncertain and stressed about our prices and offer! When customers ask us to justify 'made up' product prices this can be an incredibly stressful conversation! Remove the guesswork from your product and services pricing and pricing will get easier!

**MISCONCEPTION #5: I CAN JUST CHANGE THE PRICE LATER IF IT'S NOT RIGHT."** Sounds plausible; and yes you can. But changing prices once they are out there in the market creates serious trust and price transparency issues with your staff and customers. Changing published prices; and publishing a price list with lots of price inconsistencies, broadcasts loud and clear that you've put little thought or rigour into calculating your prices. Customers don't like that and will rightly call you on it!

**MISCONCEPTION #6: OUR MAIN FOCUS SHOULD BE ON ATTRACTING MORE CUSTOMERS AND GENERATING MORE INCOME.** When you have no customers, you need to find customers that's for sure - otherwise you have no business. At the same time, you can improve the lifetime value of a customer at the start of customer acquisition using the right pricing tools and support. Time is a premium when you are growing a business. But you'll actually be creating more time for yourself (and less stress) by setting up the right price setting system, operations and workflows from the get go. And it'll take the same amount of time as what you are doing already! Profitability doesn't have to be a long hard slog! Don't wait to make profit after you've acquired customers. You can grow and be profitable at the same time!



Could pricing be the reason you are losing customers?

Pricing oversights and mistakes are very common, but sometimes they can be considered a crime. Even corporations have fallen victim to allegations of pricing misconduct. For example – Las Vegas Strip hotels have recently been accused of illegally using price to maximise their profits. Lawyers are saying that hotel operators in this area have been using revenue management software to displace competitive data in order to increase the price of rooms for the purpose of boosting their profits without re-balancing supply and demand!

# 5 QUESTIONS TO ASK YOURSELF ABOUT PRICING!

## Value versus price

We are not going to dress it up – pricing for business owners is one of those necessary evils in life like submitting your tax returns.

The smart decision is to know some simple facts and choose a reputable provider so you avoid any long term issues.

Minimising any impact to your business operations is vital. Thus setting up and maintaining your prices regularly will ensure:

- Peace of mind
- No risk to business continuity
- Avoid the terrible market repercussions of customer churn, legal action or breach of ACCC regulations
- Simplify systems and processes in your office
  
- No need to buy fancy pricing software or maintain a legacy pricing that is doing more harm than good.

You want what's best and cheapest in the long run. Good quality pricing support when you need it will be the cheapest option in the long run for your business and will save you money. Good support should always ensure – no start up fees, no onboarding fees, no hidden extras, no lengthy negotiations for services, no extra project scoping fees, no consultancy call out fees, and pricing plans that are affordable and stable year after year and designed to help you fix your financial problem properly.

We have covered what to avoid and common misconceptions but what are the questions you should ask a pricing firm before hiring them?

### QUESTION #1: Do you work with business owners from start ups, or small and medium sized businesses?

Most pricing firms do not work with SMEs. They serve large corporates. The reality is they will not waste their time on small businesses that can't afford their expensive consulting fees. Some contractors might work with you, but they'll want a high daily rate too; many do not have dedicated pricing expertise and/or can leave you at any time.

### QUESTION #2 Can you provide us with pricing that will meet our needs and budget?

If a firm, contractor or expert cannot give you a clear indication after a review of your needs, this is a warning sign. As can a quick quote without establishing your commercial requirements, needs, budget and timelines. As stated above most consulting firms, and contractors have high daily rates - fees that are equal to or greater than partners in law firms or chartered accountants. Many will charge you a fee for scoping out your needs!

### QUESTION #3: How do you charge/ invoice us?

Most pricing firms try to charge you a lump consulting fee + performance bonus, others will split it over an agreed time. This can add volatility to your cashflows and can make it difficult to budget for the year ahead.

### QUESTION #4: Do I need to sign a long term contract?

If you do find a firm that will help you, they may ask you to sign a long term contract – and sometimes multi year contract for them to start providing pricing advisory & consulting services. Think – is there any real benefit to you to be tied into a long term agreement when your cashflows are already under pressure.

### QUESTION #5: How can you help us improve customer pricing?

This is vital – an accountant is not a pricing expert. An excel wiz is not a pricing expert. They are both two different fields of expertise. Accountancy is focused on cost optimisation, tax, audit, transfer pricing etc. Excel technicians can perform a full range of excel operations to complete a task or model you define. Both are useful skills in pricing, but they are not pricing. Pricing expertise is focused on customer pricing strategies, price setting methodology, commercial price modelling and analysis, customer agreements and rebate modelling, price structure design and development, price systems integration and data and stakeholder management etc. If you get the wrong person or firm to assist you, then you really are risking your profitability and growth plans. The company should be able to describe their areas of expertise and capabilities– and provide case study evidence.

Here are some CEOs and experts from around the world giving their advice on customer product and services pricing - what to do and what not to do - which you can read below:

1. "The single most important decision in evaluating a business is pricing power... If you've got the power to raise prices without losing business to a competitor, you've got a very good business. And if you have to have a prayer session before raising the price by 10 percent, then you've got a terrible business." – **Warren Buffett, American business magnate** ["Top 40 Buffet-isms: Inspiration to become a better investor", 2013, Forbes].

2. "Perhaps the reason price is all your customers care about is because you haven't given them anything else to care about." – **Seth Godin, best selling author and marketing guru** [All Marketers Are Liars, 2005].

3. "You know you're priced right when your customers complain—but buy anyway." – **John Harrison** [Pricing News Daily, 2014].

4. "You can determine the strength of a business over time by the amount of agony they go through in raising prices." – **Warren Buffett**. ["Top 40 Buffet-isms: Inspiration to become a better investor", 2013, Forbes].

5. "Pricing is actually a pretty simple and straight forward thing. Customers will not pay literally a penny more than the true value of the product." – **Ron Johnson, the former chief executive officer of J. C. Penney** [New York Time, 2013].

6. "Product pricing is aligned to the way customers want to acquire their solutions and are delivered via different delivery models including appliances, the cloud, or as on-premise software solutions." – **N.Robert Hammer, Chairman, President, and CEO of CommVault Systems since 1998** [Harvard Business Review, 2012].

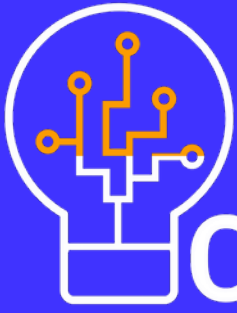
7. "Price is what you pay. Value is what you get." – **Warren Buffet**. ["Top ten Warren Buffet Deal Making", Bloomberg, 2012].

8. "Pricing is the exchange rate you put on all the tangible and intangible aspects of your business. Value for cash." – **Patrick Campbell** [Two Reasons Why Pricing is the Most Important Aspect of Your Business. 2012, Price Intelligently].

9. "With the price of life these days, you've got to get everything for free you can." – **Carl Rogers** [Pricing News Daily, 2013].

10. "What I 'charge' today has nothing to do with yesterday or tomorrow. It has to do with 'now!'" – **David Wayne Wilson** [Pricing News Daily, 2014].





# VALUE CULTURE

When you run a business – product and services pricing can be difficult because you simply do not have the resources you need to make a good decision. Also, being locked into an unsuitable multi year contract is the last thing you need.

Value Culture operates on flexible 30 day agreements – which basically means that if you are not happy with our service, or it just does not suit you anymore – you can cancel by giving us 30 days written notice.

Value Culture provides affordable pricing and commercial to small and medium businesses and all in one platform. We serve members across the world, including Australia where we are based in our Sydney CDB office in York Street.

You can meet with a consultant to see how Value Culture can fit your exact business needs. Explore our tailored pricing plans based on your goals, priorities and budget. Generate more \$ value from day one by building your team's commercial capability.

Check out all your options at  
**[Valueculture.com.au](http://Valueculture.com.au)**

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