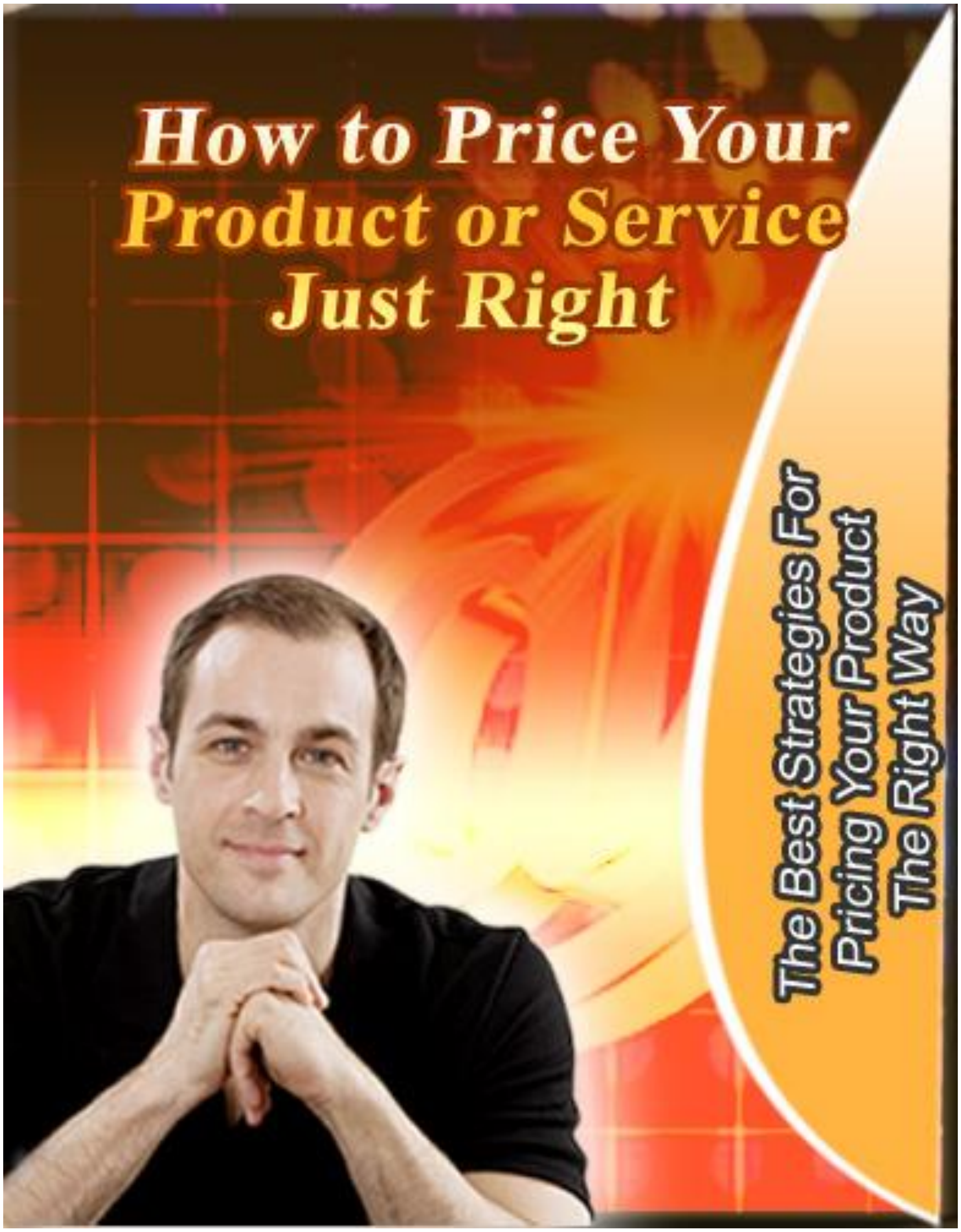
How to Price Your
Product or Service
Just Right
The Best Strategies For
Pricing Your Product
The Right Way

LEGAL NOTICE:

Table of Contents

Pricing: All You Need to Know

If you are trying to sell something on the Internet, pricing your services/ products would be the single most important decision you will take. Since, the Internet provides thousands of alternatives to the customers, you need to be at par with the competition. The prices that you quite will determine how long you can stay in the market.

You need to acquire a clear cut idea about pricing. To what extent can you push it? How often do you need to review the prices? A lot would depend on how you handle this stage of business. You have to pinpoint a consumer group to begin with and then estimate how much they would be willing to pay for your services or products.

But besides that you also have to ensure that you make some profit for yourself. And quite often these two demands can be in conflict with each other. Different people use different techniques to set the prices of their products. Some of them have a scientific basis and some do not. Given below is one such procedure which works with an understanding of the production cost, customer expectations and other players in the field.

Cost is defined as the sum total of the expenses that you incur when making a product. Expenses include cost of raw material, machinery, packaging, delivery etc. Price is amount customers have to pay for per unit of you product /service.

For you to make a profit, the price should be more than the cost. Your prices should be consistently above the cost if you are planning to run your company for a long time, except in special cases. Sometimes you can lower the prices, to gain entry into a market for example. Starting with prices which are lower than your competitors would make people notice you. And once you collect a decent number of customers you can gradually increase prices!

How much would customers pay for your services is directly proportional to significant and valuable they think your product is. Of course your marketing strategies and reputation in the market will play a significant role in this regard.

Between these two numbers, your cost and the price your customers are willing to pay for your product lies your ideal price. If your price is a little lower than what your customers are willing to pay for your services, it would definitely work in your favor in the long run.

If your price is higher that what is fair in the eyes of the customer you would end up losing your appeal and market and gradually your viability.

Working With Price Sensitive Buyers

The value of money in today's world is a stark reality and that is why customers looking to shop for their needs have become aware of the cash factor where buying is concerned.

They look to getting the most out of the least money spent that is why pricing your products correctly goes a long way in ensuring that you keep getting customers and make profits. But that necessarily does not mean that you can only woo your customers by reducing prices, as this can often lead to losses.

But more than price, it is the value of the product that determines its price in the eyes of the customer. One will never expect a high profile vehicle like a Mercedes to be priced in accordance with the rates of a Toyota, but they will expect to get the best deal from you when searching to buy a Toyota in the market.

Thus adding value to any product through good marketing, research and development is a sure shot way of ensuring your customer appreciating and agreeing to the price and the worth of the product. Therefore it is a simple fact of changing how the customer looks at a product.

The simplest and efficient strategy to satisfy a price sensitive buyer is to give them a vivid picture of the benefits this spending will get them in the long run. Everybody likes to know that they spent good money on something that will last and bring back more returns. So if you can convince the client that buying something is not just about spending but investing in something worthwhile and long term, they will definitely agree to spend the money.

Showing how the higher priced object will in the end cause lesser problems and thereby save a lot of hassle and unnecessary spending on servicing and repairs, you may just be able to clinch the deal. This is again all about convincing their customers they are doing the wise thing in looking at the long term benefits of the purchase.

If you have a quality product and market it well any sane customer will come to you. Even if it means spending that extra buck, customers want the best in the market for themselves. So giving quality products never fails in bringing back customers for more.

Winning over price sensitive buyers requires understanding that price is not the only component of their buying decisions. When you take the time to uncover your customer's needs you will be able to present the full value of your service or customer. If you fail to uncover the complete picture you may find yourself in the position of answering price concerns, and in the long run that will not help your business to succeed.

So know your customers. Figure out how their minds work and what they want. This will go a long way in convincing and wooing them to buy the right, even though expensive, product. If you fail to understand that buying is not just about the money but all the other things mentioned above, you might have to keep reducing prices to get customers and that will not be to profitable to your business.

How to Achieve "Winning Price"

Setting a price for your product or services, especially when you are trying to sell on the Internet, can be the most crucial business decision. Setting a price is not as simple as it might sound. If you are looking to make profit your price should be more than your cost but it has to be lower than the 'price the market can bear', i.e. the price your customers expect to pay for your service. You have to keep these things in mind when pricing your products.

There are elaborate pricing plans that you should understand and be able to work with. What pricing plan you want to work with would depend on your business model.

Like the 'Pricing to Penetrate' plan. This plan would work for you if your aim is to penetrate the target market, quickly. To achieve this objective you will have to price your product low.

But it's important to decide how low you can go without hitting the bottom. You need to figure out the lowest you can go without running into debts and heavy losses. You should not have reservations about incurring initial losses if you will get long term customers in return.

But how do you determine the lifetime value of any customer?

Lock in your regular customers and make sure you take measures to make them stick to your particular brand. Penetration pricing is useful if you are going to make a long lasting impression. It can also be useful in circumstances where a lot of new players are jumping into the market.

Your product should be the ultimate 'sticky product' which the customer can let go of. Online brokers for example, are so much more convenient that once hooked people don't even think about alternatives.

Another way to ensure that the customer returns is to manufacture an exceptional product. When selling books online for example, a great book with a good price would ensure your instant popularity.

Amazon.com for example is the leading player among online book stores because of their heavily subsidized rates. Even though this business tactic might have cost them many a thousand dollars but they have managed to create a solid customer base which they can now bank upon.

Another viable example in real life is how companies that manufacture razors hit upon the idea that it would be much more profitable to resell razor blades than handles, and the rest as they say is history.

Pricing According to the Type of Product

Finding the right price for your product is the key to success, in both the long and the short term. The right price for your product would lie somewhere between the cost and the price a customer is ready to pay for your services. The cost would include the expenses on the raw materials and other fixed and variable expenses incurred in the manufacturing.

So much so, that it can also make your profits twice or thrice the present amount. Your products will technically fall into one of the two categories:

Commodity: There is a great amount of competition in this field, because the products of the different players in the field are the same it’s only the price that they are competing on. You need to be razor sharp and constantly on your toes. How proficient and efficient you are the only things that would make you stand out. A little lax will mess things up again.

Propriety products: These are authentic products. Genuine and special in their own standing. You compete with the other players in the market on the strength on the special strengths of your services. If you are good enough and in demand you can set a price that you ensure the best profit for you.

The market on the Internet is fast changing. To keep up you might have to alter your prices frequently, owing to new competition and changes in demand etc.

Then there are certain products like computer hardware that are both commodity and propriety products. Computer systems are getting constantly upgraded and more and more sophisticated and the competition is cut-throat. It’s a propriety product in the sense that a Macintosh can still afford to be much more expensive that a normal Windows systems because of the additional features it offers.

Anyhow, no matter you do you can’t afford to price your product wrongly because it can mean instant death in the market.

Price wars in this day and age are a part of everyday existence for any organization. To survive, you have to constantly be on your toes and deliver whatever you promise. If even one competitor lowers his prices everybody has to follow suit. But if you are not going to then you should have ample reason to stand your ground. A strong customer base which would stick with you no matter what, can be one good reason.

Pricing Strategies That Improve Profit

Pricing strategies are a sometimes-overlooked part of the marketing mix. They can have a large impact on profit, so should be given the same consideration as promotion and advertising strategies. A higher or lower price can dramatically change both gross margins and sales volume. This indirectly affects other expenses by reducing storage costs, for example, or creating opportunities for volume discounts with suppliers.

Other factors also determine your optimal pricing strategy. Consider the five forces that influence other business decisions: your competitors, your suppliers, the availability of substitute products, and your customers. Positioning how you want to be perceived by your target audience is also a consideration. Price a premium item too low, for example, and customers will not believe the quality is good enough. Conversely, put too high a selling price on value lines and customers will purchase competitors' lower-price items.

Some pricing strategies to consider are:

- **Competitive pricing**

  Keeping your prices in relation to your competitors is the best way to do business. Stay alert about how much your next-door competitor is pricing their products and then price yours similar or lesser to theirs.

- **Cost plus mark-up**

  The complete reverse of the previous mode of tactics, this aims at fixing your prices according to your wish, as per the gain percent you want to keep and not the market. But just as this has the advantage of gaining you lots through setting cheap prices, this may also work adversely under certain circumstances. So think and decide wisely before setting the price.

- **Loss Leader**

  Another effective strategy to woo customers and raise sales considerably is to sell relatively cheap items at a lower price to customers who have the potential to buy more expensive things. But this is a relatively temporary arrangement and can often prove to be a gamble.

- **Close out**

  This is an interesting technique to try when you are clearing out your stock. This method involves selling your extra goods at extremely cheap rates in order prevent losses.

- **Membership or trade discounting**

  Know your customers. Short list the ones who can reap you profits and give them special offers so that they end up getting wooed into buying more from you and also keep coming back. So reduce prices, give discounts, do what it takes to get them back into your shop.

- **Bundling and quantity discounts.**

  The simple one plus one free also works great. So give select customers a considerable discount on bulk purchases, either of the same kind, as in 5 shirts, or similar or related items. And to avoid losses, put offers on old stock or team up one new with old to clear out excess goods.

- **Versioning**

  Putting different versions of the same basic product and then offering lower prices for the more basic models is a good way to not only get rid of those models to average people. But one can also team up offers like free servicing for a period with the higher priced ones to work as incentive for the high purchasing customers.

So go ahead and use these tactics to get the level of profit you've always desired.

Price Skimming As a Pricing Strategy

Of all the marketing strategies you will use in your business, the pricing strategy is one of the most important. Along with choosing the right product, intelligent marketing, and a sound sales plan the correct price strategy will determine your revenues and market share. Usually the leaders in their industry use market skimming as a pricing technique.

The strategy of a computer manufacturer is to come up with a new laptop every 8 months or so. He lowers the price of the older, unsold models (in their maturing stage) and keeps the price of the new laptops (in their introductory stage) higher. The new laptops will demand a higher price on the basis of their newer features.

So the manufacturer is skimming the price (or skimming the market) at different stages – introductory, growth, maturity and decline. He gains the maximum profit through the highest price that each of these stages command.

This strategy will work in a large market with sufficient buyers with a high product or service demand and a company with low cost structure. In the above example with laptops, the demand is high, there are plenty of recurring buyers with an industry which has a low cost structure that is technology enabled.

Now the challenge for the company comes from the fact that there are quite a number of competitors in this market. If all of these competitors have a full line of similar products each with a varying life cycle buyers will find it extremely difficult to judge the product in terms of its quality or service or the value for price.

Faced with a barrage of similar looking products the buyer will choose a laptop with maximum features at the lowest price. And if your company is not the one with the lowest price it may hurt its brand reputation for it will seem as if you have been overpricing products which will eventually lead to a drop of sales.

Before any price strategy is chosen ensure that you first study the market carefully. One should have a clear idea about the customers' behaviour and the way in which the competitors will act or react. And this strategy should continually be tested while it is applied so as to ensure that the factors which led to this strategy have not changed over time with changing market conditions.

Is Psychological Pricing an Effective Strategy?

Price has a psychological significance attached to it. Buyers have this belief that if a product is highly priced then it is more valuable. Although this belief is more psychological than reality based it makes price tangibles more effective than the product itself.

However, it is interesting that as the buyer starts researching the nature of the product more extensively his decisions become more rational and higher price ceases to be the measuring rod for product value. One good example where psychological pricing is that buyers tend to incline more towards prices that end in uneven figures such as $9, $99 because they believe they are getting a better bargain than if the prices ended in even figures such as, say, $20, $66 etc.

If the products to be priced are in a price "band" as in online auctions or if they are priced in an odd range figures like $199,00 then the products will be considered more valuable than a $200,00 listing. The psychology behind such consumer behavior is that prices in an odd range are usually considered a better bargain. Therefore, it is important to make sure that you have chosen the right price and the right strategy for the product.

Another instance of psychological pricing is reference pricing. Reference pricing is when the buyers relate to a price psychologically since it directly reflects their regarding the relationship of a product to its price. In case of high value products such as luxury items reference pricing is highly influential and an entire business can be capitalized on this basis.

However, one has to be careful while positioning the prices since the strategy may backfire if the buyer feels that the product does not deserve to be in that category. If the product has the features that attract an ego-sensitive buyer then reference pricing is an adequate pricing strategy.

An example of this is high end luxury items which appeal to ego-sensitive buyers. For reference pricing to be successful you must ensure that the price that you have determined for a product fits it best from all angles and viewpoints including your own.

Ensure that the selected price fits the product and the price has been tested before it is released into the target market. The influence of various elements of market on the price tag must also be considered. The product must be fit for a psychological price strategy, the promotional program should be adequate for the pricing strategy and the distribution channels should be in sync with the price and not override the cost of the product itself.

Market Penetration Pricing

A quick-entry price strategy that presumes that sales volume rise when an object is priced low which in turn reduces the overall costs is called market penetration pricing. This is a useful strategy that can be used in price sensitive markets. For example, consider the market for DVD players; this is a market where sales volumes are high, but the number of competitors is high as well.

The production costs of DVD players have fallen drastically and constantly evolving technology has made allowance for the rapid introduction of new features and benefits on new models. The businesses that cash on DVD players and sell high volume at low or reasonable prices are all following a market penetration strategy.

Entrepreneurs using market penetration pricing usually try to grow a market for their brand and in the process penetrate the market for the product as a whole. All calculations are based upon the assumption that the lowest price will win the largest share of the market. But it is very important to evaluate your market, your price sensitivity and your price elasticity or in-elasticity first before you use this pricing strategy.

A certain amount of market research is also necessary in order for you to understand and prejudge how your competitors will react to this penetrating pricing strategy. For example, if your low price makes your competitor to lower price as well it will lead to a dead end as then you will lower your price again causing a similar reaction from him, and this will go on and no one will win.

While what was said earlier is true, it is also true that your market penetration pricing strategy can just be a deterrent for new competitors who are considering entering the market. The risk for a new entrant of getting a sizable market share is extremely high and when they consider how low your price is they will see that their margin will be low and so considering the risks they might choose not to enter the market.

But in order for you to be successful with this strategy, you must be prepared to enjoy the economies of the scale that high sales volume will bring and be the low cost provider in the market.

If you have an existing business and your competitor is following a market penetration strategy, you have to do the same thorough research and evaluation of the market and you own capacities:

- Is it feasible for you to lower your costs?

- Can you be sure that it will produce high volumes?
- Can you take the risk of selling your product at a low price (and hope volume sales will get you the market share and the profitability you want?)

If you answer to all these questions are in the negative, then consider this penetration strategy very carefully before using it and if you are still not sure then don't t follow the strategy.

However, if you are a new business entrepreneur considering this strategy in a new, or scarcely populated, market, where competition is low, then focus on how to lower your costs and your efficiencies up.

Irrespective of the pricing strategy you decide to use, make sure that you specify it in your marketing mix plan with the reasons for your choice.

Evaluate your chosen marketing strategy including your pricing strategy at least on an annual basis at the time of your business plan update, and ensure it is the right strategy for your product considering the market conditions and for your consumers and competitors.

Promotional Pricing

Usually promotional pricing are used while launching a new product. It is used to stimulate demand for those products which have a lagging demand. The price target buyers are usually the ones looking for the deal. Some examples of these promotional event pricing are meant for special events. These are usually meant for certain events that could be Christmas or Easter.

There are rebate programs or allowances that are available while buying a home. Sometimes the seller offer a move in allowance or carpet replacement or renovation allowance or a rebate for all cash with no hassle with financing or purchasing of big items such as cars. There are many stores that would advertise no interest financing loans for their furniture purchased.

Car dealership also offers these pricing programs for their previous year models. These strategies in the sales field have been very successful but while using these strategies you have to be careful because customers are becoming more sensitive to the true value of the strategies. Another phase strategy that seem to work is buy one get one free or get two for d price of one.

This is possible if the product cost is low, with healthy profit margin and also in case of over burden of inventory. Another important mode can be the mode of payment that is the extended payment term.

You need to pay a deposit and pay over a period of time. You would be able to get the product only when you pay up. This is very common among renovation n construction industry as the payment is made first as the initial cost, then when the project is half way and later while it is complete.

Sometimes the low cost warranty or no charge help in these business strategies. A good product usually has no return and a customer is convinced. Therefore these strategies yield a positive impact. The over use of these strategies has led to a customer skepticism. They look for the reality in the deal. The most often used promotional pricing is the “ going out of business” sale.

This sale may be misleading as it may mislead. It is a relocation of d same business. As a customer you should be aware that you are not being duped into such scheme. There are still many effective promotional pricing programs, so be smart as to how to develop your pricing strategies.

Competitive Pricing

To figure out whether your items are priced too high or not, do what your customer does. Search the web. According to 2006 yahoo!/OMD, there are about 66% of family who use the Internet to research on a product and 64% use the search engine to buy a product.

Take any one of your product and look up the Internet. Compare the prices with others, this would help you if you want to sell more. It is simple, you just need to type the name and ask to compare prices. It may be a little time consuming depending on the item you sell and the saturation of the market. This would provide an important insight that would help your business and make you aware of what you are up against.

You may be able to differentiate your product and convince your customer so that they buy from you. Start this by lowering your cost. This always helps. If you see that there is a possibility of further lowering your prices then do so. You would find that your item will become “lowest price ever on the web!”. Low cost helps purchase and this would make up the difference of price cut.

Guarantee a price match. Let your customers know that you would match any price and u will not be under sold. Once the customer are there, make them follow through with the purchase. You could also offer them free shipment. In case your item costs more than the competitor, you could offer free shipping as this would give your item the lowest cost at check out.

Free shipping add as an bonus to any purchaser. This word makes a huge difference whether or not you finally make the sale. If by chance you loose a customer it would be because of the customer not convinced by the cost of the item. Therefore to convince your customer that your product is worth the cost and definitely worth purchasing it from you it is important that you make certain changes.

Cost is not the only factor but one of those most important factors that influence purchase. So if you have given your customer a best buy in case of the product worth it would help you to have an edge over the rest of the competitors.

Offering Discounts as a Part of Your Pricing Strategy

Pricing of goods is difficult. No single determinant magic formula exists that will decide the best price for one’s product. There is no simple strategy but one can take certain measures to make more effective pricing policies. It is difficult to be certain about pricing decisions, one can only rely on ones own judgment. But even while doing so decisions are never quite satisfactory.

The price determination of goods or services is one of the most vital ones in business. The price of products has to be done in such a way that the intended customers are willing to pay that amount and also one that generates profit for the company or the business won’t last long.

There are several scientific and non scientific approaches to pricing. Presented below is a framework for making pricing decisions that takes into account your costs, the effects of competition and the customer's perception of value.

Pricing policies are sometimes unnoticed as part of marketing .They can have substantial effect on profit, so should be given the same amount of thought as promotion and advertising tactics. Variation in price can considerably change both gross margins and sales volume. This leads to indirect effects on other expenses by reducing storage costs, for instance, or creating opportunities for volume discounts with suppliers.

Your pricing strategy might take into account discount offers to consumers who offer you a business advantage.

One may offer cash discounts to customers who pay without delay. This system thus rewards those who help one’s company maintain a constant, positive cash flow and reduce credit-collection costs.

Quantity discounts for large orders makes economic sense when the cost-per-unit to sell or deliver a product reduces as the quantity increases. A caterer, for instance, may fill an order for 12 dozen cupcakes for one customer at 10 cents each, while cupcakes sitting in the bakery display rack may be sold to several customers throughout the day for 20 cents each.

This is done because there is the probability that some of the cupcakes won't sell has to be considered. Costs are also associated with keeping the store open for random customers' convenience. There are costs associated with having the store open for random customers' convenience.

Seasonal discounts actually reward customers who essentially assist a company in balancing its cash flow and in meeting production demands.

Trade-in allowances for returned old goods that one may either re-use or re-sell for a profit benefits both a company and consumers.

Promotional allowances frequently make economic sense. For instance, if your product is used in ad campaigns or in promotional activities by a retail chain that also sells your product it ends up giving leverage to your marketing efforts. If this is the case, you might choose to discount your price to the retail chain that does so.

Alternative Pricing Strategies

Pricing is certainly one of the most important factors of your marketing mix strategy. Correct pricing can make your product a hit or a failure in the market. The factors that have to be kept in mind when marketing your product are the following:

- It has to be of superior quality
- It should have features that your buyers require or desire
- It should be different from what your competitors have to offer
- It should have a good cost structure
- You should also pay attention to a strong promotional campaign
- Keeping these factors in mind, it is important to determine the pricing strategy in a way that helps you to successfully sell your product in the market.

Given below are some alternative pricing strategies:

1. **Generic or Economic pricing:** In this strategy, the buyer is attracted by the low price. It is typical of generic or economy brands. For this strategy to be fruitful, you should have a low cost structure, minimal features and promotion. Simultaneously, ensure that you reap some solid, stable benefits.

2. **Differential pricing:** In this method, the idea is to set the price according to different buyer types, (e.g. the price will differ for an online store, a retail store and a departmental store); geographical area, (prices can be higher in California than in Illinois); by the quantity purchased (a person buying large quantities will get a rate different from one buying a small quantity); on the basis of national account segment (the price charged to a national account will vary from that charged to a local account). Do remember, there has to be a valid reason for applying differential pricing.

3. **Premium pricing:** This strategy is applicable for luxury or high end goods such as expensive jewelry, yachts, planes, estates etc. You can use this strategy if the market recognizes your product as a luxury or premium item.

4. **Captive product or companion product pricing:** This strategy can be adapted to product line pricing as well. In this case, products are bundled together as companions and priced accordingly. (e.g. a mixer and mixing bowl). They also consider products as captives (e.g. a razor that can only be fitted with a particular blade). These products are

often packaged in a single package. (e.g. blades may be packaged with the razor) The prices of these products outside a package usually tend to be higher.

Remember to review your products carefully before choosing a particular strategy so that the pricing is appropriate.

Change Prices to Make Your Offerings More Appealing in Non-Price Ways

The days when men swore by Gillette, and women didn't look beyond Guerlain are long gone. There are rarely any monopolies in the world market, and every product in the economy has a competitor, a substitute that is constantly trying to outdo the other. The most common basis for competition seen in such multi-product markets is price.

Usually consumers are attracted to those items that have a lower cost of purchase than its substitute. Since there mainly exists differentiated products the overall quality is more or less the same.

Now, from the producer's point of view, the only way to lower his product price is to cut down on his cost. But methods of production cannot be changed without changing the quality. And needless to say, if one has to cut down on cost, the quality is sure to go down as well. Another way would be to increase the scale of production. But that is time consuming. Hence, some other measure is required for immediate effect.

Supermarkets and wholesalers use a typical method of pricing, called block pricing. When a consumer comes across a signboard that says, "Milk- 1 gallon $3.00; 4 gallons $10.00", automatically he comes to a calculated observation that he is making some sort of gain by paying two dollars less if he buys it in bulk.

Hence, mission accomplished. Although buying products in bulk reduces the cost for the consumers apparently, his spending habit would be different if he had 1 gallon of milk at his disposal instead of 4 at a time.

Another way to grab the buyer's attention is to issue intelligent offers. Everyone understands the concept of FREE. It's a short word, but it can do big things. Normally, one buys conditioners with shampoos, scrubs with soaps and socks with shoes. Therefore, if by buying a big bottle of shampoo one gets a small bottle of conditioner FREE with it, then that could attract many buyers.

Buffets at eateries charge a fixed price per head for meals. This means, that the person eating soup, Chicken a la Kiev and dessert pays the same as the person eating only the chicken and dessert. This may sound unfair to person 1, but after all no one refused to serve him soup. Therefore, although price is a factor, it is mainly a psychological battle where the customer is confronted with many options to choose from.

Value Based Pricing

Pricing of a product based on its value judgment is extremely important. Customer preferences, product benefits, company image, convenience and product quality are subjective criteria that will help an organization understand the customer's perception of the value of its product or service. What customers want is vital.

Are they saving money or time by purchasing your product? Is there a competitive advantage that they gain by using your service? What are their choices? Is it convenient for them to use your service instead of doing it themselves? What exactly does the competition demand?

The maximum price the customer will pay for the benefit received can be understood if the above points are kept in mind.

Listed below are a few value-based pricing strategies. They take into account the break-even point, but are inclusive of subjective judgments in addition to the numbers.

1. **Establishing the same price as competitors -** This is used when prices for a commodity product are usually well-established (like professional services), or when there are no other means to set prices. The challenge, therefore, is to figure out how to lower costs in order to produce higher profits as compared to competitors.

2. **Establishing a Low Price -** This is done solely to capture a large number of customers in the market concerned. This strategy is also used to gain non-financial objectives such as meeting the competition, projecting an image of being low-cost, or simply for product awareness. If profitability can be maintained at the low price, or if sales levels are acceptable, this strategy works and can later lead to the raising of prices.

3. **Charging a high price** - It is possible to charge a high price relative to the cost of the product if it is unique and is valuable to customers. The affluence of the target market also counts. Positioning a product as a “prestige product” in such a case would make it possible to charge a high price. For example, Rolex watches may not have that high a production cost. However, the high price brings a “status” benefit to the affluent Rolex market.

Charging the customers what they are “willing to pay”, even though it is high, is a strategy that requires alertness and intelligence. It also requires a willingness to change because customers (as well as competitors) might decide that the profits are too high. Therefore, a lot of factors influence value based pricing, but an intelligent strategist can make the most of it.

How To Know If Your Pricing Is Right?

If your prices are not perfect you will not get anywhere even if you have the greatest product/service in the world. Internet firms employ three primary pricing strategies- POPS, CAPS AND VAPS. If they are properly implemented, they can just help the firms gaining an advantage over the rest.

(POPS) PHYSICAL OBJECT PRICING STRATEGY, works well by selling a physical item and that which is shipped to your customers. Amazon.com and Wall-Mart falls under this category. These firms start at the base level to determine the price by finding out how much it costs to produce and to deliver one additional unit. (It is the marginal cost).

Let's take the example of Wall-Mart. They sell microwave-oven. To sell an additional unit how much would it cost them? To need to figure this out they would have to find out the cost at which they buy from their suppliers, cost at which they put it in the store n the cost at which they execute their transaction. So to determine the final price a firm needs to add to the marginal cost.

This is the operating profit margin:

To find out the percentage they need to compare it with similar other firms. Amazon has a 6% profit. Competing retailers should aim at the same operating margin preferably a lower one would do the trick. A firm developing an efficient business process could minimize their cost and help them keep their prices low while still retaining their attractive margin.

(CAPS) COST OF ACQUISITION PRICING STRATEGY. POPS works well if your primary cost is the cost of the actual cost of good s that you are delivering. But firms that are selling product/service where the cost is marketing based, associated with the number of visitors to your sight it may benefit by utilizing CAPS to determine their final price. CAPS usually answers two key questions.

1. **What will cost it to get people to visit a site?**

2. **What is the percentage of the site visitors that would make the final purchase?**

The answer of the first question should be divided by the answer of the second question to give the firm its cost per acquisition. Therefore the operating profit margin can be added on this to determine the final price.

For example a retailer may find that on an average it costs 0.10$ for a visitor who visits the site and there may be 1% visitors that make the purchase. So from here we simply derive the cost per acquisition. And we find out what should be the final price. The key here is to minimize the cost per acquisition.

(VAPS) VALUE ADDED PRICING STRATEGY. For businesses in which the marginal cost is zero for example in the sale of digital products like e-books and online courses. VAPS work best while creating a business model in which you can charge different price to different clients.