Transcript from Podcast 2

The do's and don'ts of pricing

Hey there and thanks for tuning in and your listening to The Marketing Menu brought to you by Nicky Matthews at Media Box Marketing and Liz Gordon from Brilliant Fish PR and marketing. Hi there Nicky, so what are we chatting about today in today's marketing podcast?

Today's Marketing Menu podcast is all about pricing and how to get it right so that you can be comfortable that you have the right pricing structure for your products or service.

As with our first podcast, this issue underpins your business success; it is important to get it right. In our previous podcast we looked at planning, and how you're going to put plans together over various stages of your business and how you need to consider them throughout the lifecycle of your business. I guess the same can be said for this subject.

Yes, so one of the hardest things I had to wrestle with when setting up a business was arriving at the right pricing structure, and being honest, I still debate this regularly, what are your thoughts?

It's a tricky one isn't it because unfortunately, there is no one size fits all and it is as we've said a weighty subject.

I think initially when starting out it is very much a confidence thing. I found myself taking cheaper jobs because I knew my business pipeline was weak and then there was doing things for free just to build my credibility. Particularly in our field, I found there were a lot of businesses offering services for free to get in front of potential clients, even though I could see that these businesses were offering an awful lot of value.

I did the same but, actually, we were undermining the value that we should place on our experience. After all, you've been in the industry for over 25 years, and that knowledge and experience is worth an awful lot.

I often undervalued my own service and therefore I suppose my credibility.

Okay, so what did you do, did you copy the competition and go with the flow?

Well, to start with yes but I did try to differentiate, add value and build this into my pricing strategy, I know we're going to talk about this more in future Marketing Menu podcasts.

Well, I guess I also struggled with what I like to call, some you win, some you lose and some you should lose.

What, you mean working on jobs that you know are either undermining your pricing or jobs which end up being a complete time suck or which wreak havoc with your stress levels.

Oh, Nicky,
you're referring to that hideous but valuable marketing term cost per acquisition there aren't you?

I am and I guess it took me a long time to realise that I could and, more importantly, should have been saying no when the time is right, as it freed me up for those more profitable jobs.
Okay for sure but that brings us back to how to set your price, how did you go about that?

Well, I guess there are the traditional ways of looking at pricing structure as then there are the bits you've got to be mindful of.

The three things to be mindful of are:
- What your product or service will be worth to your customers - its value.
- What it costs you to produce your product or provide your service.
- The price your competitors charge.

So successful businesses maximise their profits by matching their pricing with the value customers put on their products or services. Whereas product pricing is often built on a 'cost-plus' basis, while service pricing is created on perceived value, so to arrive at either of these you have to understand:
- The cost is the total outlay required to create a product or service.
- The price is your financial reward for providing the product or service.
- The value is what the customer thinks the product or service is worth.

Yes, so for example, for a plumber to fix a burst pipe, it may be £5 for travel, £3 for materials and £10 for one hour's labour. But the value to the customer is far greater than the £18 so that a plumber may charge up to £50.

That's a really good example. So whatever your pricing structure you have to understand your cost structure provides a basis for what you need to charge. But it will not necessarily show you what you can - and should - charge.

Yep, so one way to look at this is again going back to different headings and dividing your costs into different things:

- Firstly, divide your costs into two headings: variable and fixed.
- Variable costs will increase when your sales increase (e.g. goods and materials).
- Fixed costs remain largely constant, regardless of how much or little you sell (e.g., rent, salaries, business rates).
- As long as the price you sell at is higher than the variable cost, each sale will make a contribution towards covering fixed costs - and make profits. Based on this cost structure, you can assess the consequences of different price levels.

For example, a car dealer has variable costs of £9,000 per car sold and fixed costs of £200,000 a year, and these fixed costs may be leasing the forecourt, telephone lines, employing a mechanic and paying your wages to name a few.

The contribution towards these fixed costs depends upon the volume of sales. So if the car dealer sells 80 cars each year, he needs a contribution of at least £2,500 per car (i.e. £200,000 divided by 80) to avoid making a loss.

Of course, but this method is just making sure you cover your costs and provide some income so its very subjective and you have to ensure that you understand your costs over time, take account of future needs and know what costs are likely to go up as well as down.

Which brings us to markups which are the bit that's going to make you a profit and is usually arrived at based on two elements:

- The markup you must add to the cost to make the desired profit, and
- The markup used by competitors usually expressed as a percentage of costs.

But first you need to ensure all your costs have been factored in before applying the mark-up, this sounds like an awful lot of number crunching?

Well, it is, but once it's done it's easy to project up or down, so I guess it's worth doing the homework but bear in mind…

- If the final price looks uncompetitive, review the size of the markup. But try not to obliterate the markup to make the price competitive.
- And also bear in mind that different products and businesses apply very different mark-ups. For example, retail markups include:

Fridges: cost plus 25 percent.
Branded clothing: cost plus 135 percent. A cup of coffee can be cost plus 300 percent or more.

Gosh! I guess there are dangers with whichever pricing structure you adopt but I suspect a lot of start-ups adopt the cost plus model?

Yes, they do initially but do be aware that this structure does have some pitfalls.

- Cost-plus pricing ignores the image and market position you will be aiming for.
- It also ignores the demand for your product or service.
- Then there's always the possibility that some hidden costs get forgotten, making true margins lower than you expected.
- Common oversights include holiday pay, depreciation, and costs of handling waste for example.
- Cost-plus pricing also assumes you will achieve your sales target to break even or better.
- And, of course, further down the line competitors can lower their prices to win business from you by either reducing their cost base or working on lower margins.

So then, if we go back to our plumber, we mentioned that he's basing his price on the value of his product or service that he's bringing his customers.

Yes, he's thinking about any number of things, but some things that may relate to him or you depending on what you're offering could be:
- Convenience – an out of hours plumbing service can charge more than one who only works 9-5 just like a late-night convenience store can charge much more than a supermarket for a pint of milk.
- Plus, there's brand - there may be little to choose in technical terms between a branded and an unbranded product, but big spenders will go straight for the expensive product if the brand is well marketed. I know I've chosen a well-known bathroom suite over a cheaper branded one for example.

Then, of course, you've supply and demand and seasonal opportunities.

Then I guess there's fashion - some people will pay a premium for hot items, for instance the latest trainers or cars.

Yes, which is similar to thinking about where your product is in its lifecycle as customers pay more for something new and innovative, and less for a product in decline.

Then there's purely perceived value - fine art is a good example. A sculpture is priced at £20,000 or £60,000 based on its estimated value to the buyer, rather than just the cost of its creation.

Yes, that's looking at status and credibility, but I know we're going to look at how you create this status and credibility in future episodes of the Marketing Menu podcast.

Hey but that's a whole other subject yes and not one we've time for today but I guess this might be the time to say to our listeners that if you are enjoying this Marketing Menu podcast, please do make sure you share and subscribe via iTunes or SoundCloud when this item has finished as we are a new channel and we'd really like to get out there and help as many growing businesses as possible by making some impact.

But before we go on Nicky, I think it's important that we do a quick recap of the points we've covered.

Yes, okay, so when pricing your product and service, you need to look at those all-important fixed costs and variable costs and break that down over the number of clients you want to have or the number of products you want to sell. Then once you understand these, you need to keep in touch with what your competitors are charging, remembering though that they will have different costs to you and that they may be adopting any number of pricing strategies. And finally, you need to consider the value you are adding to your clients or products: is it convenience, is it knowledge, is it reputation, whatever - because this is very much going to underpin the stories you're going to tell and the way in which you're going to build your credibility story.

I'm so glad you mentioned that because that's precisely the subject of our next podcast from The Marketing Menu which we've aptly called "Crushing it with storytelling."

Oh, over to you on that one Liz, perhaps we should remind listeners to subscribe to our channel at the end of this broadcast and say they can also sign up for updates on our website The Marketing Menu.com where you will also find other articles serving up other tasty marketing morsels.

Once again there's a lot here to take in, and I guess people may need to re-listen, but we are also offering a free transcript. All you need to do to get this is head over to our website themarketingmenu.com. Just to remind you we'll be running bi-monthly podcasts on alternate Wednesdays and of course we're here to tailor the content around your needs so if you've any questions, please do get in touch but most of all please share our channel with others who you feel may benefit from tuning in.

Or write us a review that'd be really nice.

And it's also important to say that we'll probably come back to this again in future podcasts on The Marketing Menu, talking about how you may price to approach individual opportunities or issues, for example.

Yes, because some of the subjects that people highlighted when we did our research of over 100 companies before setting up The Marketing Menu was to look at justifying costs and return on investment, as well as dealing with cheaper rivals, so we'll need to relook at this. But for the time being, are there any other key points you can think of that may be useful for listeners to take away from today's session?

Ok well, you need to work out which pricing strategy works for you, and either way understand your costs and the margins you are seeking or, alternatively, you must be able to demonstrate what your value is and work out what the market will pay for that, bearing in mind this can change over time.

And I guess I'd say don't be embarrassed by your prices - If you've done the research, you should be confident the market can afford it

Yep, always remember that adage:

20% of your customers generate 80% of your sales

20% of your products generate 80% of your sales
So make sure you are prioritising the right ones at the right time.

And I'd say don't copy the competition - differentiate, add value and build this into your sales and marketing strategy. So I'd add, try not to use price as your key differentiator. Typically, customers score price at 7/10 in importance, placing more value on quality or service.

Similarly, though, please don't hide prices. Nothing annoys me more than a salesperson unwilling to state the price, and also agree on prices in advance, not only to protect your client/customer relationship but because unexpected surprises will inevitably lead to you losing out.

Finally, I'd add don't be too cheap. Be more "expensive, but really good value," and that's the key I guess. Of course then you need to think of ways to add value and then how you're going to communicate this, but that's why we're here isn't it, to offer this Marketing Menu insight! Bear this in mind when going into marketing meetings have an upper and lower level.

Wow, so that's a lot of other points straight off the bat, we really are offering value for free!

Yes, just to close really I guess overall, listeners, what we're saying is there really is no one size fits all approach, but there are some serious ideas here to help set you up on the right track, but do send us any questions pertaining to your particular difficulties so we can revisit this topic.

Yes, thanks, I enjoyed that, what a great topic to get our teeth into.

Before we wrap up, we just want to say a big thank you for tuning in. We know there are loads of podcasts and webinars out there and we've specifically designed The Marketing Menu to offer practical, accessible marketing ideas that you can put into practice. So we're super excited that you've chosen to tune in and we very much hope that some of what we've shared today resonates with you and allows you to make real business changes. Let us know how you get on.

Yes, so tune in again on Wednesday week when, as Liz mentioned, we'll be discussing storytelling and how to build this into your marketing. Thanks guys, so this is a goodbye from me, Nicky Matthews at Media Box Marketing, til next time.

And me, Liz Gordon from Brilliant Fish PR & Marketing, goodbye.