

Pricing Strategies

Price

“Everything comes at a price. Everything in your life. The question you have to ask yourself is, what price are you willing to pay?”

Paullina Simons, *The Summer Garden*
(American Writer)

Price

Product Price

No matter what type of product you sell, the price you charge your customers or clients will have a direct effect on the success of your business.



Basic Rules of Pricing

1. All market-generated prices are just. They are just because they are **Voluntarily Achieved** through interactions between buyers and sellers.
2. How much the customer is willing to pay for the product has very little to do with the seller's cost and has very much to do with how much they **value** the product or service they're buying.



Basic Rules of Pricing

Economic Constraints:

Many customers operate on tight budgets and in such an environment it is important to offer customer prices that affordable and accessible while maintaining fairness.

Community-Based Economy:

- Businesses located in a community-based economy, trust and relationships are important factor in pricing.
- Relationships with customers can influence pricing and loyalty.
- Biblical principles like fair pricing (Proverbs 11:26) resonate strongly in close-knit, faith-oriented communities.

Biblical Perspective

Fair Pricing

Proverbs 11:18-26 (TLB)

26 People curse the man who holds his grain for higher prices, but they bless the man who sells it to them in their time of need.

Leviticus 25:14 (NIV)

14 “If you sell land to any of your own people or buy land from them, do not take advantage of each other.

Biblical Perspective

Deceptive Pricing

Proverbs 11:1 (NIV)

“The Lord detests dishonest scales, but accurate weights find favor with him.”

Deuteronomy 25:13-16 (Message)

13-16 Don't carry around with you two weights, one heavy and the other light, and don't keep two measures at hand, one large and the other small. Use only one weight, a true and honest weight, and one measure, a true and honest measure, so that you will live a long time on the land that God, your God, is giving you. Dishonest weights and measures are an abomination to God, your God—all this corruption in business deals!

Cost Plus or Mark up

Cost Plus or Mark up

- Method used by manufacturers.
- Takes total cost and adds a % margin like 20% and upwards.
- The danger in this method is that you need to make sure you know the product costs.



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Scenario: You run a tailoring business, creating custom dresses for local customers. You want to calculate the price of one dress using the **Cost Plus Pricing** method.

Step 1: Calculate the Total Cost, which includes:

1. Direct Material Cost:

- Fabric: \$10 per dress
- Thread and other materials: \$2 per dress
- **Total Material Cost: \$12**

2. Direct Labor Cost:

- Your time to sew one dress: \$8

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- 3. Other Costs:** Rent for workspace, utilities, and machine maintenance: \$3 per dress (calculated by dividing monthly costs by expected number of dresses made).
- 4. Total Cost:** \$12 (Materials) + \$8 (Labor) + \$3 (Other Costs) = **\$23 per dress**

Step 2: Add the Markup

Decide on the markup percentage. For example, you want a **30% profit margin**.

- Markup = Total Cost × Markup Percentage
- Markup = \$23 × 30% = **\$6.90**

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Step 3: Calculate the Selling Price

- Selling Price = Total Cost + Markup
- Selling Price = \$23 + \$6.90 = **\$29.90**

Final Price: You should charge approximately **\$30 per dress** to cover costs and achieve a 30% profit margin.

Why Cost Plus Works for a Tailoring Business:

- **Predictable Costs:** Tailoring materials and labor are straightforward to calculate.
- **Fair Pricing:** The price reflects your costs while ensuring a reasonable profit.
- **Transparency:** It's easy to explain to customers how you arrived at the price, building trust.

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Competitive pricing

- Set a price based on the competition's selling price.
- There are three categories of Competitive pricing



Cooperative



matching dollar for dollar the pricing of the competitor and moving your up and down with their price.



Aggressive



if the competitor lowers the price, you will go lower, if the competitor raises the price, you will stay low.



Dismissive



in this approach you don't react to the competitor's price change. Typically, you can take this approach when you are a market leader.

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Scenario: How to Apply the **Competitive Price Strategy** to the Tailor business.

Step 1: Research Competitor Prices

You discover:

1. Tailor A charges **\$25** for a custom dress.
2. Tailor B charges **\$28** for a custom dress.
3. Tailor C charges **\$30** for a custom dress.

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Step 2: Choose a Competitive Pricing Strategy and decide how to position yourself against competitors:

1. Cooperative Pricing: Match your competitors' average price.

- Average Price = $(\$25 + \$28 + \$30) \div 3 = \mathbf{\$27.67}$
- You set your price at **\$28**, close to the average.

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- 2. Aggressive Pricing:** Undercut competitors to attract price-sensitive customers.
 - You price your dress slightly lower, e.g., **\$24.50**.
 - Risk: Lower profits and the potential to start a price war.
- 3. Dismissive Pricing:** Focus on your unique value and ignore competitors' prices.
 - For example, charge **\$32** because your dresses use higher-quality fabric or you offer faster delivery.
 - Risk: Customers must perceive the added value to justify the higher price.

Pricing Strategies

Price skimming



Initial Launch (High Price)

Charge a high price for innovative new products with no competition, then lower it over time.



Recouping Costs (Early Adopters)

Attract tech enthusiasts with a high price to recoup development costs (e.g., new televisions).



Risk of Copycats (Lower Price)

Competitors may introduce copycat products at a lower price, affecting tail-end sales potential.

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Scenario: How to Apply the **Price Skimming Strategy** to the Tailor business.

To create a price skimming strategy for this business you would need to create a special product, like a new **luxury dress** for a special occasion, such as weddings or church celebrations. This dress is unique in the local market, featuring premium materials and intricate embroidery.

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Step 1: Set an Initial High Price

Since your dress is a premium, one-of-a-kind product, you set a high price to target affluent customers or those willing to pay more for exclusivity.

Initial Price: \$60 per dress (double the typical price for custom dresses in the area).

The high price helps:

- Cover your development costs (e.g., time spent designing, sourcing premium materials).
- Position the product as a luxury item, appealing to early adopters or customers seeking prestige.

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Step 2: Gradually Lower the Price

After selling several dresses at the high price and gaining recognition for your unique design, you begin to lower the price as competition or demand shifts.

- **Phase 1:** Initial price (\$60) for the first 10 dresses.
- **Phase 2:** Lower the price to **\$50** as demand grows and you want to appeal to more customers.
- **Phase 3:** Eventually drop the price to **\$40**, aligning closer to standard dress prices while maintaining a slight premium.

Pricing Strategies

Penetration pricing

Concept & Example



Makes sense for setting a low price early to quickly build a large customer base.

Example: Costco sells **rotisserie** chicken for \$4.99 (losing \$30-\$40M/year) to attract customers who then buy profitable items.

Risks



Customers expect constant low prices



Price-sensitive customers can be disloyal



May start a price war with competitors

Pricing Strategies

Scenario: How to Apply the **Penetration Price Strategy** to the Tailor business. For this scenario, we can assume that the tailoring business is new and we want to attract new customers and establish the reputation of the business..

Step 1: Research Competitor Prices

Understand the current pricing in the market:

1. Competitor A charges **\$25** per custom dress.
2. Competitor B charges **\$30** per custom dress.
3. Competitor C charges **\$28** per custom dress.

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Step 2: Set a Low Initial Price

To stand out and attract customers, you set a price below your competitors. For example:

Introductory Price: \$20 per dress (20% lower than the lowest competitor price).

Step 3: Offer Additional Incentives

Sweeten the deal to make your business even more appealing:

- Free minor alterations for first-time customers.
- A loyalty card where customers earn a discount or free service after several purchases.
- Bundle pricing, such as discounts for bulk orders (e.g., school uniforms).

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Step 4: Monitor and Adjust Prices Over Time

Once you've established a loyal customer base, gradually increase your prices. For example:

- After the first three months, increase the price to **\$25** per dress.
- After six months, align your price with competitors at **\$28–\$30**, emphasizing your value-added services like faster turnaround or higher quality materials.

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Step 5: Market Aggressively

Let your community know about your low introductory prices:

- Use flyers, posters, and word-of-mouth to spread the news.
- Partner with local events (e.g., church gatherings or community festivals) to showcase your work.
- Emphasize the **limited-time offer** to encourage customers to act quickly.

Pricing Strategies

Value-added Pricing



Pricing is set **higher than competitive methods**.



The premium is **justified by** providing **superior customer value** and **benefits**.



This is considered the **best method for small businesses** to thrive.



Perceived Value > Price

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Scenario:

In this price method for the tailoring business, you want to stand out by offering exceptional value to customers. Instead of competing on price, you decide to charge higher prices than competitors by emphasizing the **additional benefits** customers receive when they choose your services.

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Step 1: Understand Competitor Prices

- Competitor A charges \$25 for a standard dress.
- Competitor B charges \$28 for a dress with minimal extras.
- Competitor C charges \$30 but offers no additional services.

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Step 2: Identify Your Value-Added Benefits. Decide on the unique services or features you can provide to justify higher prices. For example:

- 1. Custom Design Consultation:** Offer personalized style advice and fabric selection guidance for each customer.
- 2. Fast Turnaround Time:** Complete orders within 48 hours, compared to competitors' standard one-week delivery.

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Value-Added Benefits Examples:

- 3. High-Quality Materials:** Use premium fabrics and threads for durability and comfort.
- 4. Free Alterations:** Include one free fitting and alteration within 30 days of purchase.
- 5. Loyalty Program:** Reward repeat customers with discounts or free services after multiple purchases.

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Step 3: Set Your Price

Based on the added value, you set a higher price than competitors:

- Your price for a custom dress = **\$35**
- Justification: The additional benefits (e.g., better materials, fast delivery, free alterations) provide clear value to customers.

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Step 4: Communicate the Value to Customers

Make sure customers understand what they're paying for:

- Highlight benefits in all marketing materials: “Fast delivery, premium fabrics, and personalized service included!”
- Showcase customer testimonials or pictures of your work to build trust and credibility.
- Create a professional atmosphere in your workshop to reinforce the quality of your service.

Customer Benefits that can boost your prices

- Excellent Customer Service (all the time).
- Excellent Quality.
- Your products are always available.
- Trusted, knowledgeable resource.
- Unique product offers.
- One-stop shopping.



Pricing Strategies

Pros and Cons of the different Pricing Strategies

Price Strategies	Pros	Cons
Cost-plus pricing	Time-saving way to price	Does not incorporate the value to the customer
Competitive pricing	Simple: adjusts to competitors' prices	Focuses too much on what others are doing.
	Aggressive pricing: good for companies with healthy margins	Lower prices can bring financial trouble if sales volume dips.
	Dismissive pricing: offers market leadership protection	Ignoring competitors may leave you vulnerable to surprises in the market.
Price skimming	Its early high prices help recoup development costs.	Copycat products can rob later-stage sales potential.
Penetration pricing	Its significantly lower price can motivate customers to switch brands	Price wars and too-low prices can become the norm.
Value-based pricing	A boon to artisanal goods, high-tech products and other unique services.	Not beneficial for all products where differentiation is not a key variable.

Margin Maximizer App

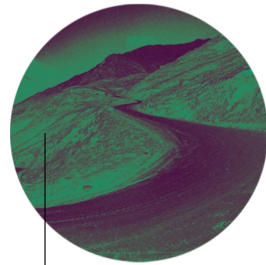
- The app helps students effectively improve their profit margins.
- It allows users to accurately calculate the total product cost.
- Students can select from various learned pricing methods.
- The tool assists in calculating the final selling price and profit margin.



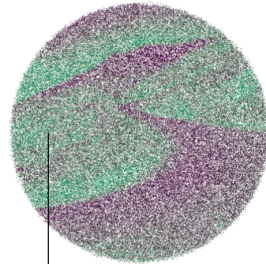
<https://marginmaximizer.pages.dev/>

Practice Session: Calculating Cost

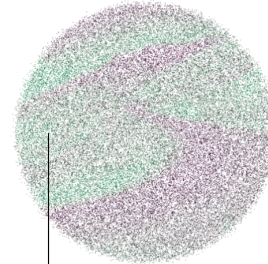
Retention of new information over time, without repetition



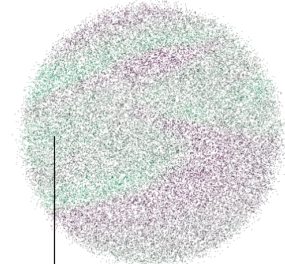
100%
Immediately
after learning



60%
20 minutes
after learning



30%
1 day
after learning



25%
1 week
after learning

Practice Session

Scenario for Students:

Your team owns a small bakery, selling loaves of bread for **\$1.50 each**. There are already two competitors in your area offering bread at similar prices. You want to stand out by using a **value-added pricing strategy** to charge **\$2 per loaf** while convincing customers that your bread is worth the higher price.

Your task is to:

1. Identify unique benefits and features you can add to your bread and service.
2. Set a new price for your bread that reflects the added value.
3. Develop a plan to communicate your value to customers.

Practice Session

Instructions for Teams:

1. **Form Groups:** Work in teams of 2-3 students.
2. **Analyze the Market:**
 - Assume the competitors are selling similar bread for \$1.50.
 - Discuss what customers in your area value in baked goods (e.g., freshness, health benefits, convenience).

Practice Session

Instructions for Teams:

3. Create a Value-Added Strategy: Brainstorm 3-5 unique features or services you can offer to add value. Examples include:

- Adding nutritious ingredients like whole grains or seeds.
- Offering free delivery to nearby homes or businesses.
- Packaging the bread attractively in eco-friendly wrapping.
- Providing discounts for bulk purchases or loyal customers.
- Guaranteeing freshness by baking in small batches multiple times a day.
- Ensure these benefits align with the community's needs and justify the higher price.

Practice Session

4. Set a Price: Decide on a new price for your bread. For example:

- Competitors: \$1.50.
- Your Price: \$2 (with additional value-added features).

5. Plan Your Marketing Message:

- Develop a tagline or slogan that highlights your bakery's unique benefits (e.g., "Healthier Bread, Happier You" or "Fresh Bread Delivered to Your Door").
- Write 2-3 sentences explaining how you will promote your bread's added value (e.g., using posters, flyers, or social media).

Practice Session

6. Prepare to Present: Each team will present their pricing strategy to the class, including:

- Their chosen value-added features.
- The price they plan to charge.
- How they will communicate the value to customers.

“And let us consider how we may spur one another on toward love and good deeds,” – Hebrews 10:24

Your business is a platform to glorify God, serve others, and inspire transformation in your community. Keep building with purpose, faith, and integrity.

