



# Mastering Marketing

## Highlight

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## Is the Price Right?

Whether you're gearing up to sell at a farmers' market, through your roadside stand, or by private treaty, you cannot thrive in business today without a pricing strategy. The price you set for your product must fall between two points: what the customer is willing to pay and your breakeven point (the point at which you start losing money).

What should you charge for your product? Charge too much and it won't sell. Just reduce the price and fix the problem. But, charging too little is far more dangerous. If you choose to compete on price, you may not only forego significant revenues and profits, but also fix the product's market value position at a low level. Once prices hit the market it is difficult to raise them. Research reported by the *McKinsey Quarterly* shows that 80 to 90 percent of all poorly chosen prices are too low.

The latest studies indicate that price is a major consideration for between 15 and 35 percent of the population - which means between 56 and 85 percent of the people concentrate on factors other than price. Many businesses act as though 100 percent of the population is price obsessed. This delusion nibbles away at their profits and attracts only the most disloyal of all customers.

Your pricing objective is to let your customers know the amount of money charged for a product or service, right? Actually, there are multiple layers of pricing objectives. When almost identical brand name items, such as peanut butters, are priced differently, it's because the manufacturers are pursuing different pricing objectives in their marketing strategy.

Here are some steps to follow to help you set the right price and pursue your marketing objective.

1. Develop a pricing strategy- consider:
  - a. Utilizing odd-evening pricing (\$3.99 instead of \$4.00), standard mark-up pricing (typically a manufacturer marks his price up 15% over his total cost per unit, a wholesaler 20% over his costs, and a retailer 40% over his costs.), or customary pricing (when the product "traditionally" sells for a certain price, such as a pack of gum).
  - b. Targeting "quality" customers versus "quantity" customers
  - c. Offering volume discounts or add-on products
  - d. Offering two layer pricing- one price for premium service and a lower price for an economy service
  - e. Matching competitor's pricing

- f. Always using the same price to establish consistency
2. Develop a goal for your pricing strategy. “What’s the goal for your business?” Pricing is part of your marketing strategy and reflects how you position your product. If you want to be the go-to-guy for a certain product or service, then you need to always sell only top quality product and offer great service. You may have to extend operating hours for customer convenience or perhaps offer a money-back, no- questions- asked return policy. If you’re positioning your enterprise as a family activity, then you need to have activities and operational hours geared towards the weekends with family-friendly packaging, activities and prices.
  3. Study the competition. The Internet can give you an abundance of information about your customer, the marketplace and the profit potential - all at a very low cost. You can even interview some potential customers. You might tell them you’re thinking about selling a certain product and ask them what they are currently paying for similar products.
  4. Calculate your total costs of producing a product or offering a service by adding together your fixed costs + variable costs. Once you have your total costs, you can calculate the break-even price for a product or service. Of course you’re not in business to just break even.
  5. Identify your added value. “What’s your unique selling point? Is it quality, different varieties, free delivery, convenient location, or locally grown? What can you offer that customers are willing to pay more to obtain?”

Remember this golden rule when setting prices: perception is everything. How customers view your product or service and what they are willing to pay for it is based upon perceptions. In the end, customers will tell you loud and clear through their purchasing behavior whether or not your prices are too high, too low, or right on the money.