

Pricing Strategies

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Pricing Strategies

One of the most important decisions to be made when launching a product or service is setting the price.

Sometimes, this is also one of the most difficult decisions. Ultimately, you will want to make as much profit as you can from each sale, with prices set at the highest point possible before demand starts to decline.

But numerous factors will influence your pricing structure. For a start, you must consider your business objectives: for example, if your aim is just to maximise profits, you may set a higher price than if your objective is to increase market share or grow sales. We look at some of the issues you need to consider.

If you would like to discuss how we can assist you, please contact us on 01494 675321 or by email at info@rousepartners.co.uk

Covering your costs

A popular and simple method of pricing a product or service is to calculate the costs of producing it and add a profit margin. For example, if it costs £10 to make a product and you decide on a mark-up of 50%, the sale price will be £15 (and the gross profit will be 33.3%).

However, when using this method, it is important to take into account all costs. Some 'direct' costs will be obvious, such as stock, materials, employee wages, storage, packaging and delivery. But you must also be aware of 'indirect' costs, such as rent, utility bills, insurance and depreciation of equipment. You may need our advice when analysing your total costs.

In addition, using this 'cost-plus-profit' method alone fails to take into account such factors as competition, market trends and the needs of the customer. offered as part of a tender process.'

Competition and customers

Customers buying standard products available from numerous sources will generally look for the supplier with the lowest prices. This makes it difficult for the small business to compete with large corporations, who can mass-produce and purchase in bulk.

Consequently, many successful small businesses do not even attempt to compete by lowering price, but instead focus on other areas such as perceived quality, customer service or uniqueness of brand. Indeed, if you are marketing your product or service as high-quality or 'luxury', customers will expect to pay more and a cheap price will actually harm sales.

Different approaches to pricing

Target pricing

It can be difficult to compete on price if production costs are relatively fixed. Target costing is a solution to this problem, and is almost the opposite of the cost-plus-profit method. When launching a new product you decide upon an optimum selling price from the outset, and then deduct your desired profit. The result is your target cost, and all involved in design, development and production are tasked with meeting this cost. However, setting the initial optimum selling price does require extensive market research.

Market skimming

This strategy is most often used when launching a new product which is unique to the market. The idea is to take advantage of being first to market by setting a high price with a greater profit margin than normal, thus making as much profit as possible before competitors are able to bring out similar products.

Penetration pricing

The opposite of market skimming, this is commonly used when trying to launch new products in an already popular market, or when selling an existing product to a new market. The strategy is to offer an initial low price, in an attempt to gain market share before raising prices. Magazines frequently take this approach, offering early issues at very low prices in an attempt to attract loyal readers, who will be willing to pay more for subsequent issues.

Price matching

Prices are set by mirroring competitors rates, without attempting to undercut the 'going rate'. If your business is dominant in a marketplace, you may be able to dictate this rate.

Destroyer pricing

This is an aggressive high-risk strategy designed to eliminate competition. Quite simply, prices are lowered to the point where competitors are unable to match them, and consequently go out of business. A great deal of confidence in your knowledge of your own and your competitors' capabilities is required before attempting this, and it is not generally recommended.



Discriminatory pricing

Sometimes, you might want to set different prices for what is essentially the same product. This may be done in a number of ways, such as:

- ▶ By **customer group** - for example, existing customers might get discount prices on new products; or entertainment venues might charge lower prices for students
- ▶ By **time** - prices can be varied by season or time. For example, off-peak and on-peak telephone charges, or off-season holiday deals
- ▶ By **geographic location** - you might be able to charge higher prices for the same product in more affluent areas, or in places where there is less competition
- ▶ By **image/form** - with different packaging and image, the same product might be sold at different prices to different markets.

As you can see, there are many different issues to consider when setting a price. It always pays keep an eye on your pricing in relation to the competition, and hopefully be one step ahead.

How we can help

If you are looking for support and help from experienced accountants and business advisers, please contact us on the number or email address above.

Trusted advice, *imaginative solutions.*

It's the old adage that all accountants are the same, but ask yourself this; what kind of service would most add value to your personal or business position? In our opinion, the quality of advice and service is what separates a good accountant from a great one. This is where Rouse Partners can make a difference for you.

Our award-winning team make it their business to get to know you and your specific needs. Whether your goal is to grow your business, increase your personal wealth or improve your work-life balance, by understanding your challenges, we will address them together.

We also know how important it is for you to have a team that you can rely on for timely advice and reassurance. At Rouse, our people are our most important asset and we will select team members who offer an optimum mix of experience, specialism and knowhow. From your Partner, to your Tax Advisor, each team member will be accessible to you or your team and be proactive in seeking solutions.

At the heart of our way of working is a determination to think differently, to challenge the 'status quo' and to ask 'what if?'. Whether you are facing a complex tax, accounting or management situation, we are ready to find a solution.

Contact us today to discuss how we can support your personal or business tax needs:

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Accountancy

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