

Pricing Pitfalls

– Don't do these Five Things!

'Pile it high and sell it cheap,' 'If the customer doesn't question the bill, it's not high enough!' ...just some of the pricing clichés and quotes that are commonly bandied about in business. Setting prices is a key but confusing subject for business owners, but it's still an area to which the least amount of science is applied and the most amount of "gut feel". Avoid these 5 things and you will be richer:

1. Letting Non-finance Staff Set Prices

Don't allow sales, technology or administrative staff to make pricing decisions. For example, one enthusiastic employee of a media company client of ours sourced some rental equipment at a fraction of the market price. He then triumphantly informed the client and applied a standard mark-up to it. The company ended up with a profit of £2,000 instead of £10,000.

2. Price Inflexibility

In tough times, it's tempting to cut prices to maintain custom. But low prices endanger the brand and are difficult to restore when profits improve. A better and more flexible solution is to package up an alternative product or service that is priced differently. BMW did it by launching the cheaper 3-Series but if you insist on paying £80,000 for one in a recession, you can still buy a 7-Series.

3. Giving It Away

Most businesses waste up to 20% of profits by over servicing. Make every contract watertight and never stray beyond the agreement – unless you charge for it. If the customer knows exactly what they're **not** getting, they can't complain when you bill for extras. Builders know this instinctively, without spending 3 years at Harvard Business School.

4. Haphazard Pricing

Clever businesses use “pricing management” to achieve their objectives. Pricing policies fail when all you are doing is undercutting the competition or following a gut instinct. Use your head, not your tummy, to find out how important pricing actually is to your customer’s buy (or not to) buy decision. Why do they buy? Prestige? Comfort buying? You need to know the answers; don’t guess!

5. Allowing Over-Generous Discounts

Sales staff will always keep a discount up their sleeve to clinch a deal. Even with the most important of new clients, their business isn’t valuable if it loses you money. If you want to maximise profits, discounts are not the answer. Sales staff should stick to selling and let the accountants drive pricing decisions.

For more contact Christopher Jenkins, Senior Partner of Wingrave Yeats at cjenkins@wingrave.co.uk

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