



Excerpted from
FastTrac® GrowthVenture™



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Pricing Constraints

Pricing constraints are those things that keep you from having flexibility in your pricing decisions, such as ceiling prices set by customers and your own break-even point. But what your customers are willing to pay (ceiling) and your break-even point (floor) are not the only constraints you must deal with.

In some industries, the government regulates prices. This can benefit or hurt you depending on the situation. If you're in a regulated industry, you already know how this works. If you're not, make sure you understand what you'll be getting into if you consider moving into regulated markets.

Customer demand is often price sensitive. For some products in some markets, raising or lowering your prices will have little effect on how much your customers buy. For example, when gasoline prices go up and down, people who drive to work and have no other transportation alternatives still have to buy the same amount of gasoline each week. When housing costs go up, customers have to pay the prices if they want a place to live.

In other situations, customers can be very sensitive to price changes. If the price of beef rises, people may buy chicken instead. If one 20-inch floor fan sells for three dollars less than competitive products, a vast majority of customers may select that product instead of the more costly alternative. When competing products are very similar, prices can make a difference in people's buying habits.

Creating Value for Customers

For most companies, even those that sell commodity products, there are ways to add value to avoid making price the only consideration for customers.



Thinking Beyond Price

Like beauty, value is in the eye of the beholder, says Neil Parham. Owner of Eagle Packaging, a \$3.5 million supplier of packing materials in Lawrenceville, Georgia, Parham can't stand out from the crowd on product alone.

"A cardboard box is a cardboard box. A pallet is a pallet," he says. "Unless you differentiate yourself on service, you're competing on price—and business based on price is too easy to lose."

With that in mind, Parham keeps his eyes peeled for nontraditional ways to serve customers. That might mean making deliveries at a particular time of the day or warehousing some purchases and allowing customers to take smaller deliveries. "There's no recipe, no single solution," Parham says. "It's a matter of staying alert to opportunities."

"If you do something special for a customer, you're creating value for your company and generating loyalty from the customer," Parham says. Smaller companies can offer specialized service because they're more nimble. But it's important to think ahead to avoid negative consequences. "You can brainstorm and come up with great things to do for customers, but it has to be economically feasible on your side," he stresses. "Both parties should be winners."

Follow Parham's advice and consider ways to add value to your products and services so you are not competing on price alone. Use the following chart to analyze your current pricing strategies.



Current Pricing Strategies

What pricing constraints have I found in my industry?

- Costs control prices.
- Competition dictates pricing constraints.
- Price is regulated by the government.
- Customer demand is price sensitive.

How do these issues affect my prices?

What pricing position do I currently use?

- Lower
- Higher
- Parity

How do my current prices match my competitive advantage?

How do my current prices support my business strategy?

What pricing position is consistent with the image I want to have in the market?

- Lower
- Higher
- Parity