8 Pricing Mistakes You Should Never Make

by: Avy Punwasee

Even in today's challenging economy, plagued with high inflation, increasing costs, and supply chain challenges, pricing issues can be easily avoided if you know what to look out for. In this article, the author presents eight common pricing mistakes that companies often make and should work to prevent, especially in light of current challenges Avy Punwasee (apunwasee@reveneuml.com) is a Founder and Partner at Revenue Management Labs. He specializes in strategic pricing implementation and is adept at enabling companies to make sense of their complex and diverse environments. Avy holds a BBA and MBA from the Schulich School of Business at York University and is a Certified Pricing Professional and member of the Professional Pricing Society.

With supply disruptions, increased competition, and the highest inflation since 1981, determining the right pricing strategy is crucial. Without the right pricing strategy, your company is bound to run into problems such as being unable to pass price adjustments, customers not understanding your prices, higher rates of defection, etc. Surprisingly, these pricing issues can be easily avoided if you know what to look out for.

Here, we have highlighted some of the most common pricing mistakes that companies make:

1. **Cost-Based Pricing:** Pricing based on costs ignores the inherent value of your offering. It is not focused on customers, is difficult to track, and creates a risk of under/over-pricing, ultimately leaving money on the table. Unlike cost-based pricing, value-based pricing involves setting prices based on a customer's perceived value, which improves customer loyalty, brand value, and profit margins.

2. **One Size Fits All:** Your company has lots of different customers with diverse needs. Some customers are looking for premium service and won't mind paying a higher price, whereas others are extremely price-sensitive. Each customer segment requires a unique pricing strategy allowing you to capitalize on their willingness to pay. Often companies overly simplify their pricing structure, offering uniform prices for all customer segments. This drastically reduces profit margins and forgoes sales.

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3. **Outdated Pricing:** In a dynamic market, it is extremely vital that pricing is constantly revisited and revised. With constant fluctuations in the market, it is important that your pricing accounts for changes such as customer demand or supply shortages. Outdated pricing incorrectly reflects the offer's value, brand image, etc., ultimately disjointing your pricing strategy from market realities.

4. **Scaling Price Points:** Increasing the number of price points and creating multiple offers can help maximize your company's profit. You can appeal to a wider and more diverse customer base, catering to different budgetary and psychological needs in the market.

5. **Volume-Based Incentives:** Incentives that are based on quantity purchased ideally encourage customers to secure higher volumes. Often companies set volume targets on absolute dollars/units. This has two main drawbacks:

   a. Assume you are a window manufacturer, and your distributors must hit a certain threshold to qualify for a discount. Certain distributors will be able to meet this target with no issue because they are in high-volume markets. Others will have to expend substantial effort to hit the target. It is essential that you adjust incentives according to the relative market size.

   b. If you are not continually updating your targets, you are simply paying for past volume and not generating growth.

6. **Pricing in a Vacuum:** It is imperative to take competitors'

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pricing into account when establishing or revising your pricing. Your customers do not consider your offer in a vacuum. It is essential that you continually survey the competitive environment for pricing and value attributes.

7. **Failure To Establish Internal Procedures:** To successfully deliver a pricing strategy, the right infrastructure (people, data, systems) needs to be in place to better analyze and visualize data. Internal procedures, such as data analysis, customer segmentation, value analysis, negotiation guidelines, etc., work hand in hand with tools like Tableau and Power BI, enabling accurate pricing insights within the organization.

8. **Overly Relying on Sales Team for Pricing Intelligence:** Salespeople play a big role in the successful execution of pricing strategies, but solely relying on them to conjure the perfect price for every customer is detrimental to your pricing strategy. Salespeople cannot be expected to evaluate the entire portfolio of customers and purchase transactions to generate optimized pricing. Their focus lies in finding the right solution for their customers and closing the sales cycle. Overly relying on sales input for pricing will result in very emotional decision-making and a corporately disjoint pricing strategy.

Final Thoughts

These pricing issues can be easily remedied if your company pays attention to them. People say, “insanity is repeating the same thing over and over and expecting a different result,” so leverage the pricing mistakes of others.