

Pricing Sustainable Products: 7 Ways to Price Competitively

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With the right business practices in place, sustainability and affordability don't need to be mutually exclusive. And as green products become more the rule than the exception, they shouldn't be, as the author explains. Idrissa Diop has over a decade of experience in pricing. As a Solution Strategist at Pricefx, Idrissa helps companies to improve their pricing processes, profit, and growth with software. His expertise ranges from defining a pricing strategy to pricing strategy audits and competitive analysis. He can be reached at idrissa.diop@pricefx.com.



In the race to corner the sustainability market, companies failing to price their sustainable products competitively risk falling seriously behind in profit growth. But what should pricing strategies look like when the trending product is still expensive to produce? In this situation, pricing sustainable products can be tricky.

Approaches to pricing should develop as quickly as the market to stay competitive. Fortunately, your business can strike the right balance between the premium production costs of sustainable goods and lower pricing by making a few simple adjustments to your business model.

In this article, we'll discuss current pricing of sustainable products, including why sustainable products tend to be more expensive and consumer perception of premium pricing, before outlining how businesses can make sustainable products more affordable - but profitable.

Let's start with how companies have historically approached pricing for sustainable products and why, considering increasingly stronger demand for sustainable products on the market, it's time for this approach to be reevaluated.

YOUR BUSINESS CAN STRIKE THE RIGHT BALANCE BETWEEN THE PREMIUM PRODUCTION COSTS OF SUSTAINABLE GOODS AND LOWER PRICING BY MAKING A FEW SIMPLE ADJUSTMENTS TO YOUR BUSINESS MODEL.

How Sustainable Products Are Priced Today and the Consumer Response

Most sustainable products have a higher price tag than conventional products and are marketed as premium goods, not yet having enjoyed a more mainstream positioning in the market. A couple

of things contribute to their premium status and the markups that go with it, but low consumer demand and higher-than-average production costs for alternative materials and methods are two of the most talked about.

Consumer perception of premium prices for sustainable products today is value-driven; a higher price for green goods is acceptable to many when worthy social and environmental causes are offsetting that cost.

The number of people who feel this way is increasing: a [recent study](#) revealed that globally, 85% of people have shifted towards more sustainable purchasing in the last five years.

With a steady upward climb in willingness to pay for sustainable alternatives with each generation, businesses will need to rethink the way they've priced these

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products in the past and be more competitive in their offer – and by competitive, we mean affordable pricing that will both keep existing customers on their side and also enable more conversion among future customers with lower willingness to pay.

If this trend towards sustainable purchasing continues at the same pace, it won't be long before green products transcend their premium niche and take up considerable market share. For your company to profit once green becomes the norm, you'll need to have strategies to keep prices for sustainable goods down to enable as many interested buyers as possible to take part.

What Do We Mean by “Competitive” Pricing?

While *competitive pricing* can refer to **a few things**, in this article we mean setting more attractive, lower prices for customers compared to what they've seen in the past from competitors. Historically, companies have passed on the premium costs going into sustainable production to their customers, with markups as high as **220%**.

While these markups are acceptable for higher earners, as the consumer base interested in sustainability expands businesses should adjust their pricing to capture those with a lower willingness to pay.

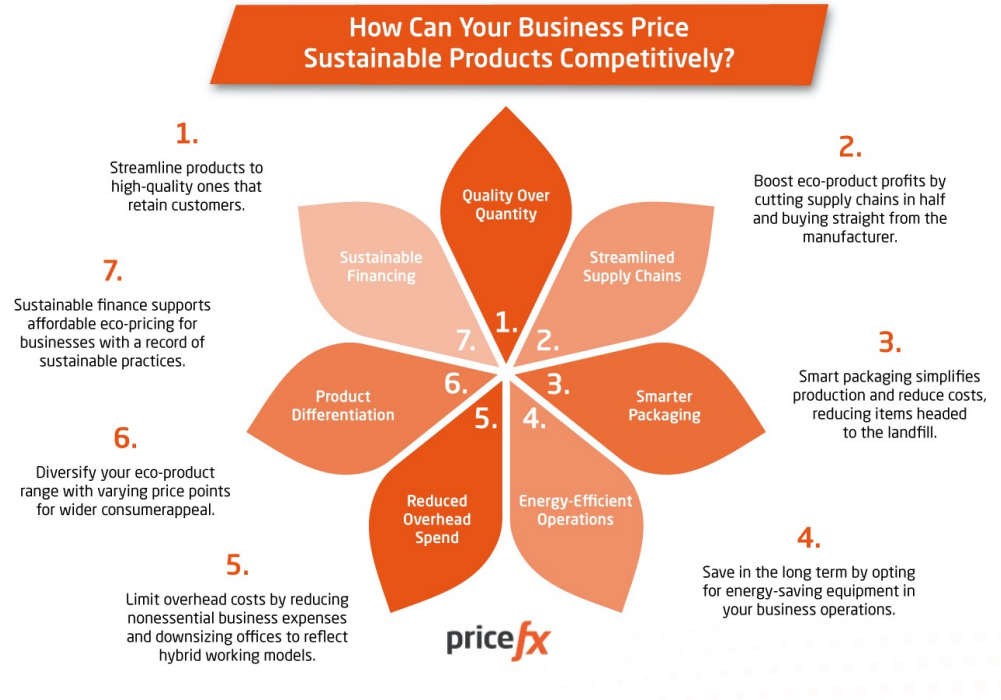
This brings us to the central question: how can businesses afford to produce quality sustainable products, set competitive prices, and still have profitable margins left over?

In the next section, we'll explore some of the ways companies have been able to achieve just that.

How to Price Sustainable Products Competitively

Premium pricing, low consumer demand, and low volume of sustainable goods can be a vicious cycle, but businesses can break out if they adopt a more competitive approach to sustainable pricing now.

The higher costs for environmentally friendly methods and raw materials are not going anywhere until there are more favorable economies of scale, but there are a few ways your company can adjust its existing business model to be in a better position to price sustainable products competitively.



1. Quality Over Quantity

Scale back and curate your product mix to only include high-quality products that customers will continue to come back to. Conducting market research to pinpoint what your customers value most will ensure you invest in products that guarantee a return on investment.

2. Streamlined Supply Chains

Businesses can recover margins on sustainable goods along the **pricing waterfall** by cutting their supply chains in half and purchasing directly from the source. To use **Trader Joe's business model** as an example, the low-cost sustainable retailer does not work with any

distributors or other middlemen, buying straight from the manufacturer instead.

3. Smarter Packaging

If designed intelligently, your sustainable product packaging can be simpler to manufacture than traditional packaging. Also, the less material used for packaging, the more cost-effective it will be – and the fewer items headed to the landfill.

4. Energy-Efficient Operations

If your business operates from an office or involves production of any kind, it can benefit in the long-term from using energy-

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saving alternatives in its lighting, heating, equipment, and other areas that could use a higher grade of efficiency.

5. Reduced Overhead Spend

Reducing unnecessary overhead costs where possible, like limiting business trips requiring air travel or downsizing your offices to reflect a hybrid working model, is another way your company can lower the variable costs it can control and afford to be sustainable.

6. Product Differentiation

So far, differentiation within most companies' sustainable product mix is minimal, as that differentiation is usually limited to segmented prices for sustainable versus conventional products. Instead, businesses would benefit from having a more diverse eco-friendly portfolio containing a number of sustainable products at different price points that respond to different willingness to pay. This way, the no-frills sustainable products are affordable to most,

and those who want a more "premium" buying experience can still get this. This avoids pigeonholing all sustainable products as something only an elite few can afford – which could turn off some of your potential consumer base (and compromise your bottom line).

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7. Sustainable Financing

Businesses don't need to limit themselves to their own resources to enable more affordable sustainable pricing. Provided they use sustainable resources or have a proven commitment to mitigating climate change, businesses can take advantage of support from [sustainable](#)

[finance](#), a type of funding from the financial sector that considers environmental, social and governance (ESG) factors in projects, to help offset the costs of their sustainability efforts.

Bottom Line: In Sustainable Product Pricing, Keep Prices Low and Profits Up

With the right business practices in place, sustainability and affordability don't need to be mutually exclusive. And as green products become more the rule than the exception, they shouldn't be.

Rather than "tax" consumers for good behavior with premium prices every time, your company can gain more from pricing its green products to be within the reach of a broad pool of consumers with varying willingness to pay. And you don't need to give up premium pricing of sustainable products, but you should consider low-pricing strategies in your product mix too.