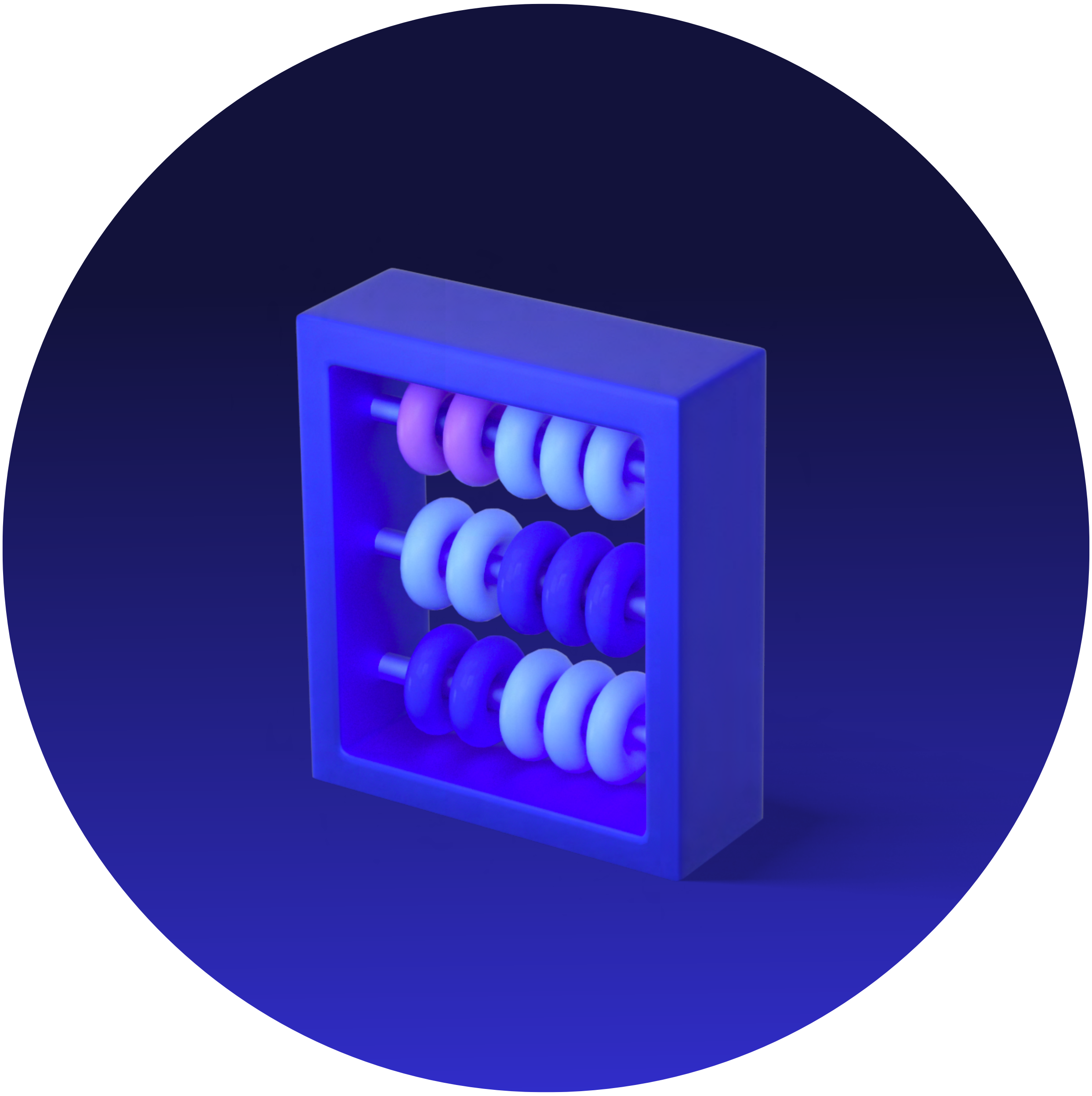
symson

The Ultimate Guide to a Perfect Pricing Strategy

A Playbook for how to use AI driven Tooling and Behaviour-based Pricing



WHITEPAPER

Introduction

Pricing can make or break an organisation's growth trajectory. When it comes to pricing there are so many factors to consider. In this whitepaper, we will talk about the challenges of traditional pricing and how to optimise.

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Challenges with Traditional Pricing

As your business grows, you'll quickly realize that your traditional pricing strategy is no longer feasible. You can no longer rely on gut feeling or ballpark estimates – you need to have a more structured approach to pricing if you want to stay competitive.

1. Relying on Gut Feeling
Pricing strategy can often be emotionally driven. Of course, pricing managers can rely on broad past trends, but without data, they cannot validate their assumptions.

2. Manual, Repetitive Tasks
raditional price setting often relies on spreadsheets of manually collected data. Unfortunately, that means a lot of tedious, repetitive tasks, which can lead to a greater chance of error.

3. Too Many Variables To Track
There is too much data across many variables for the human brain to track, compute or analyze. Companies aren't always sure which variables have a bearing on price and miss out on valuable ones.

4. No Regular Opportunity for Insight and Learning
Most companies only look at their pricing strategy quarterly or during a crisis. In this case, opportunities for insight-based learning are few and far between.

Creating a Pricing Strategy

When it comes to pricing strategy, there is no one-size-fits-all solution. The right pricing strategy for your business will depend on several factors, including your industry, target market, and unique value proposition. However, there are some general principles that all companies can follow when developing a pricing strategy.

Know your costs. How much does it costs to produce your products, including direct costs (e.g., materials, labor) and indirect costs (e.g., overhead). You can then create a pricing strategy that covers those costs and still make a profit.

Know your value. What unique value does your product or service offer? This is what will ultimately determine the price you can charge.

Consider your competition. How do your prices compare to similar products or services on the market? Being competitive is important, but you don't want to undercut yourself.

Consider Customers' Willingness To Pay. This may be different from the actual cost, but it's what customers are willing to pay that ultimately determines the price. You can find this through market research and surveys.

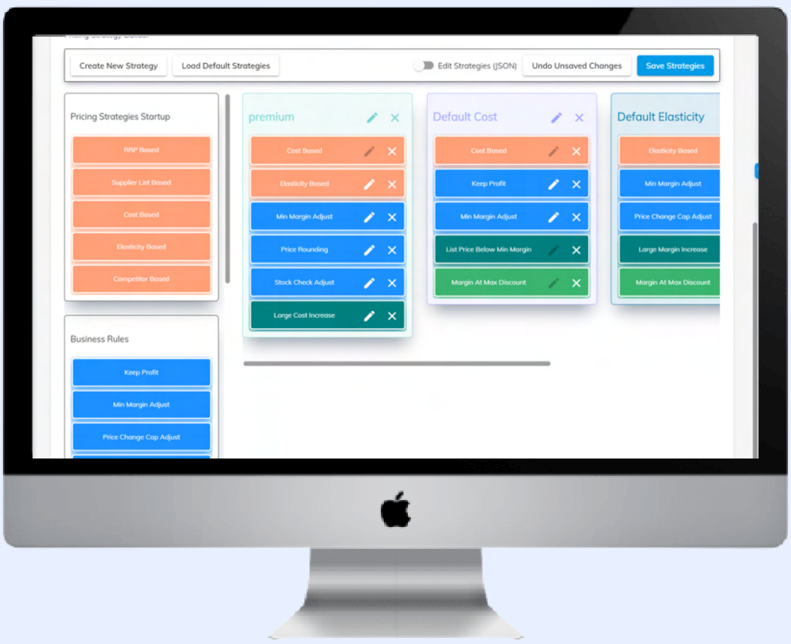


Figure 2.1 the pricing strategy builder in SYMSON

Factors that affect your Pricing Strategy

Pricing strategy is a complex and ever-changing beast. There is a multitude of factors that can affect your pricing, from geography and operating costs to demand and competition.

Knowing where to start when creating a pricing strategy can be challenging, but understanding the key factors influencing your prices is an excellent place to begin.

1. **Buyer Persona:** As a marketer, one of your key objectives is to create a pricing strategy to attract your target buyer. Understanding your buyer persona can include demographic information like age, gender, location, and job title, as well as behavior patterns.

2. **Historical data analysis:** When setting prices, one of the most important things you can do is analyse historical data. You can look at your sales data to see what prices customers have paid in the past.

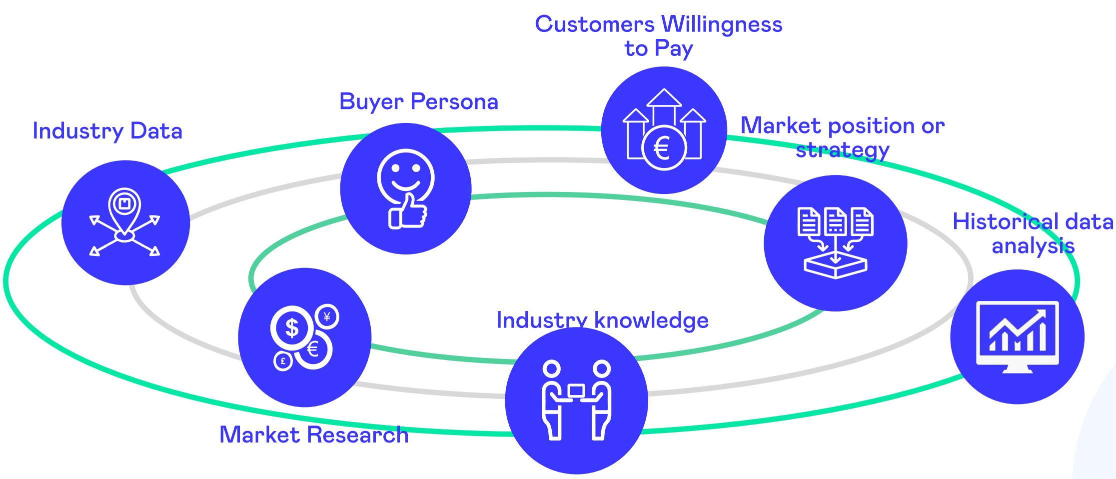
3. **Industry Data:** You can also look at industry data to see what similar businesses charge for their products or services. This is an excellent way to benchmark your prices and ensure they align with the competition.

Market Research: Market research can better understand customer perceptions and willingness to pay. You can do this through surveys or focus groups.

Industry knowledge: It is important to understand broad ballpark estimates of prices and what is considered the norm. Doing this ensures that you are not over or undercharging your customers.

6. **Market position or strategy:** That price position do you want to have in the market? Do you want to be a price leader or a price follower?

7. **Customers Willingness to Pay:** It's important to understand what is a range that customers are willing to pay.



Types of Pricing Strategies

There are a few different types of pricing strategies that businesses can use. The kind of pricing strategy that a company chooses should be based on its goals, products, and target market.

1. **Target pricing** is when a business sets a price for its product based on what the customer is willing to pay. This type of pricing is often used when a company is trying to enter a new market.

2. **Competition-based pricing** is when a business sets its prices based on its competitors' charges. This type of pricing can be effective in markets where there is a lot of competition and customers are price sensitive.

3. **Cost-based pricing** is when a business sets its prices based on the costs of producing the product. This type of pricing is often used when a company has a unique product or when it wants to maximize profits.

4. **Value-based pricing** is when a business sets its prices based on the product's perceived value to the customer. This type of pricing can be effective in markets where customers are willing to pay more for a product they feel has high value.

5. **Demand-based pricing** is when you price your products or services based on their popularity with consumers. If demand is high, prices will be higher; if demand is low, prices will be lower. This approach can help you take advantage of market trends and ensure that your prices are competitive.

6. **Dynamic pricing** is selling the same product to different groups at different prices to maximise revenue and margin

7. **Key-value item pricing** entrails recognizing your most popular and price-sensitive products to keep them affordable while maintaining margin through higher-priced, 'premium' items.

7 Challenges of implementing Pricing Strategy

However, as with any change in business plans, implementing a new pricing strategy has challenges. Here are the most common challenges and how to overcome them

1. Not Having Clear Goals

Not having clear goals can lead to much guesswork and, ultimately, a pricing strategy that doesn't achieve the desired results. For example, are you trying to attract new customers? Increase profits? Both? This will help you monitor if your strategy is working..

2. Prioritising The Pricing Strategy

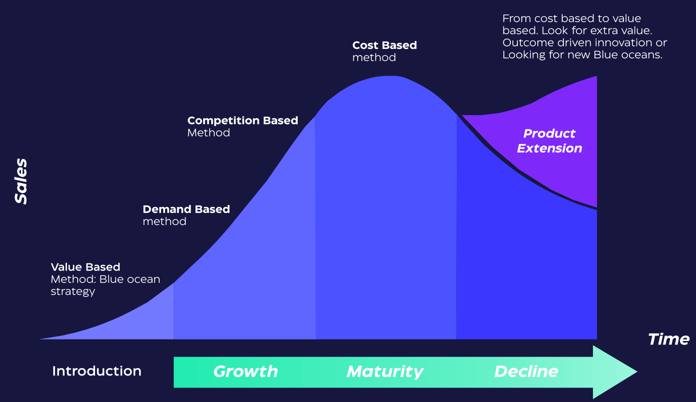
Most companies tend to set a price and forget it until the next quarter, or a crisis shows up. It's essential to regularly review and look for insights that can inform your direction with pricing. ML(Machine Learning)-based pricing software can use historical data to predict scenarios and recommend specific pricing changes accordingly.

3. Pricing Over the Life Cycle of the Product

A product's pricing strategy should consider the different stages of the product life cycle. For example, a company may want to price their product low to gain market share during the introductory phase. Then, however, the company may want to increase prices during the growth stage to maximise profits.

4. Defining the right KPIs and tracking them

The KPIs you track will depend on your specific business goals and objectives. Some common KPIs that businesses might want to track include, revenue per unit sold, margins, customer acquisition costs, customer lifetime value, and customer satisfaction levels. Once you've identified the KPIs, you need ensure you track and review them.



5. **Communicating changes to your team**
You can do a few key things to make sure your team is aware of what's going on and is on board with the changes. This includes e**nsuring a clear and concise plan, keeping your team regularly updated, and involving your team in the decision-making**

6. Customer Response to Price Changes
You must know how customers will react to price changes and be prepared to adjust your strategy accordingly. For example:

- **Customer loyalty:** Customers loyal to your brand may be less likely to switch to a competitor if you raise prices. (until you raise prices too much)
- **Price sensitivity:** Some customers are very price sensitive and will only buy from you if you offer the lowest price. Conversely, if your prices are too high, they will go elsewhere.

7. Implementing The Right Technology
The right technology can help you automate pricing processes, make them more efficient, and provide valuable insights. But, on the other hand, you may invest in expensive software that doesn't quite meet your company's requirements.

The Role of Software in your current and future Pricing Process

What is pricing software?

Pricing software is a tool that can help businesses automatically create and manage pricing strategies. By using pricing software, companies can employ dynamic pricing, which means they can change their pricing to optimize their profits and revenue. Software platforms do this by tracking competitor prices, supply costs and monitoring market trends.

Who is best suited to use pricing software?

Whether you're a **small to medium business** owner or a **large corporation,** pricing software can give you the insights you need to make the right decisions.

Companies in the **E-commerce, wholesale and distribution, retail, and manufacturing industries** can significantly benefit from pricing software, especially businesses that:

a. **have a wide range of products** at various price points.
b. **are in highly dynamic markets** where multiple variables affect cost and pricing.
c. want to maintaining brand equity (equity refers to the commercial value of a brand and its overall perception in the marketplace)

“The moment you make a mistake in pricing, you're eating into your reputation or your profits.” – Katharine Paine

Intelligent pricing software can also help you know your competition and what they charge for similar products or services. With this information, you can make informed decisions about pricing your products and services.

Benefits of using AI-based Pricing Software

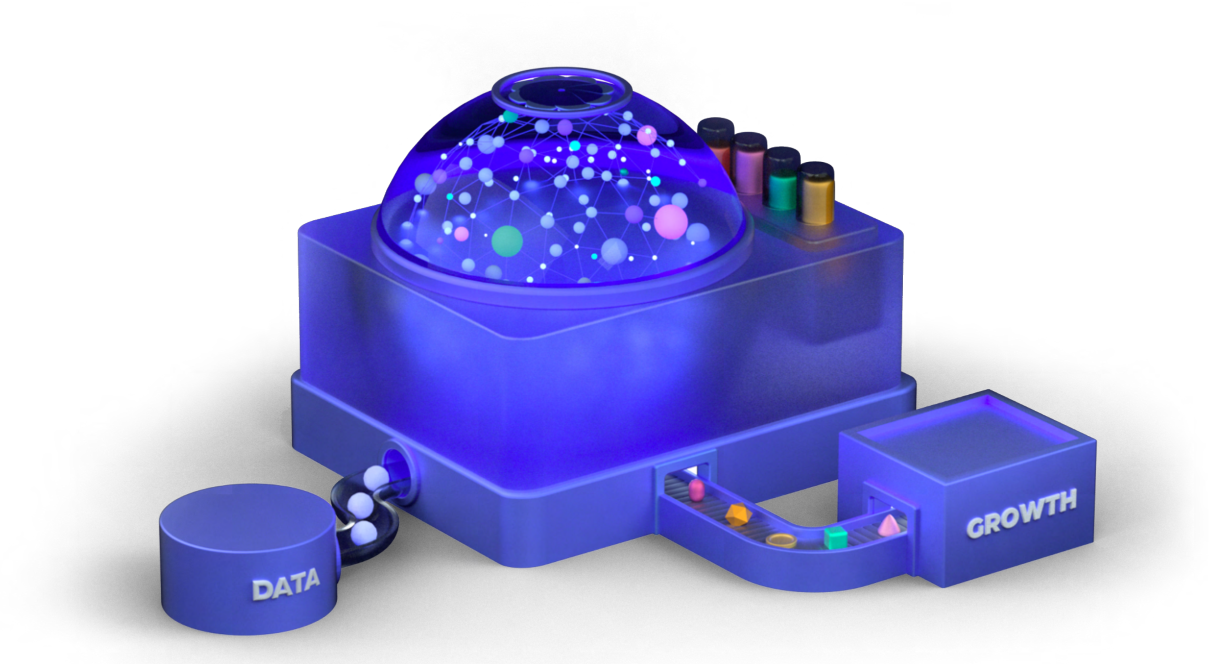
There are many factors to consider when setting price such as the cost of production, shipping, marketing, and competition. AI (artificial intelligence)-based pricing software can analyze large amounts of data to help you set the perfect price for your products or services. For example:

- **Better Insights:** AI-based pricing software can provide deep insights into your pricing data. This information can help you make informed decisions about your pricing strategy.

- **Increased Accuracy:** With so many factors to consider, it isn't easy to set prices manually. But AI-based software can quickly and accurately calculate costs based on all the relevant data, without room for error.

- **Improved Competitiveness:** The software can automatically track competitor prices and set up strategies to ensure your pricing stays competitive

- **Combined Strategies:** AI-based software allows you to combine different pricing strategies and apply intelligent business rules to get the best of all worlds. This ensures you have the most optimized prices.



The Price Of Waiting

As with any investment, you may be tempted to wait on the decision. However, the more you wait to improve your pricing process, the more money you leave on the table.

In fact, research shows that even a 1% increase in price leads to an average of 8.7% increase in operational margin.

Companies can gain a competitive edge in pricing by investing in pricing technologies. So, if you're not already using data and AI to inform your pricing decisions, now is the time to start.

In summary, Adopting Data-Driven & AI-Pricing Software helps you:

- optimize your margins
- get a better understanding of customer behaviour
- introduce a (hyper)learning approach in your organisation and makes its decisions based on insights
- save time by automating manual tasks
- create a more agile and responsive pricing strategy using real-time data from every source, including market dynamics, internal costs, and product features.

Never lose Margin again.

Optimising prices has a much bigger impact on your margin than optimising your costs:

- A 1% increase in your prices can increase the operating result by 8.5%
- A 1% reduction in your costs leads to an improvement of your result between 1 and 3%.

Figure 7 . Margin Optimization Analysis in SYMSON.

About SYMSON

We help businesses compete against tech giants with huge budgets, by equipping them with the necessary AI algorithms to optimise pricing and forecasting. We bring together scientific models, data science and software engineering in an AI platform, where businesses can quickly respond to dynamic customer behavior. SYMSON helps you to automate your tasks, provides insights into ways to increase your margin and revenue, and lets you combine multiple strategies together for a complete, solid and fully optimised pricing process.

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