SiteSell.com

Maximize Profits...
Price Your Product With Complete Confidence

MAKE YOUR PRICE SELL!

The Masters Course

by Ken Evoy

1. Introduction

The successful producer of an article sells it for more than it cost him to make, and that's his profit. But the customer buys it only because it is worth more to him than he pays for it, and that's his profit. No one can long make a profit producing anything unless the customer makes a profit using it.
—Samuel Pettengill, U.S. Congressman, 1930s

On the Internet, time waits for no company. Your customer has access to tons of information through the Web. Your competitor is a mere click away. You have to get the price right... **the first time**. In the digital market scene, there are very few second chances.

Pricing is risky. What price is too high? What price is too low? Will a certain price work three months from now? Do you know? Do you know for sure?

Pricing is one of the most important marketing decisions you will make. So much hinges upon it…

If you're selling a **commodity**, you already know that your profit margins have to be razor-thin. You're forced to compete on price. It's sometimes the only thing that sets you apart from the field. And your business has to be seamless in its operation. Gaps are too costly.

If you have a **proprietary product**, its uniqueness and benefits have to be recognized as such by the market. You have to know if your product has enough original features to warrant a higher price than the cookie-cutters around it.

Perhaps you're considering a new product concept? Not sure if it will fly? Imagine if you could know how much exactly people would pay for it. You'd know if this new idea would be worth pursuing... or not (just think of the dollars and time saved).

Launching a new product? How will you price it? How do you know the absolutely perfect price — the price that will **maximize your income**, right from the outset?

What about existing products that you sell? Market conditions change rapidly — is your pricing up-to-date? Smart pricing maximizes returns, at launch and all the way through the product maturation cycle.

And what do you know about your customers' online buying habits? How many buy this kind of product on the Internet? How much do they usually spend?
All of this is critical information to have before you begin to set a price. But here's the rub…

For the small-business owner, pricing guidance, as well as pricing solutions, are limited on the Internet — unless you have deep pockets and can afford expensive consultants or software packages.

Until now, that is…

Make Your Price Sell!, The Masters Course is your pricing “beacon of light.” It provides the pricing theory and strategies you need to know to determine the best price for your product — the “perfect price” that maximizes profit for you… **and for your customer**.

Sam Pettengill clearly understood the importance of this **win-win** situation…

The successful producer of an article sells it for
more than it cost him to make, and that’s his profit.

But the customer buys it only because it is worth more
to him than he pays for it, and that’s his profit.

No one can long make a profit producing anything
unless the customer makes a profit using it.

In other words, if you put your need to make money *before* the needs of your customers, you’re doomed. **Customer satisfaction** can make or break you.

The power of customer satisfaction, however, goes beyond the realm of pricing. So before we continue with the course, let’s zoom out and get a “big picture” view of your future…

Customer satisfaction is an essential part of your overall, online, success equation…

Great Product + Perfect Price + Right Process + Satisfied Customer = Success

Achieve the first three, and the other two automatically fall into place!

It all starts with a solid understanding of pricing basics. Let’s do it…

2. Pricing 101... The Crash Course

Price. Your business model revolves around it. Finding the **right** price for your product is **critical** — it can literally double or triple your profits.

The best place to start? With a look back in history, of course. It gives us a better view of the present and helps us to plan for the future.

So we'll begin with 5,000,000 years worth of pricing perspective…

2.1 5 Million Years of Pricing

Your new product will fail if you adopt the wrong price. Set it too high and no one buys. Set it too low and you won't make a profit — and it's not OK to lose money forever. If you choose the right price, of course, you **still** have to do a lot of other stuff right. But that's not **our** job here!

Let's do a quick historical review of pricing. We'll end up at the Internet.

In the bad old days of **hunting and gathering, people bartered**. They negotiated goods or services for the goods and services of others. Bartering is still seen in developing countries and in the "black market" of developed countries.

As the Agricultural Revolution took hold, marketplaces evolved. Now that people were growing zucchini and potatoes, they needed someplace to sell them! People negotiated a cash price on a one-to-one basis. It's called haggling. People still do it — just visit any farmers' market on a bustling Saturday morning.

Pricing varied according to supply (good year for growing?), demand (did buyers have much money?), and competition (merchants simply peeked into the next vendors' stall to see what they were charging), which all factored into the one-to-one haggling. In other words, pricing was dynamic, fluctuating constantly.

Then came the Industrial Revolution and mass production. Could retail stores and the fixed price be far behind? A fixed price is where the seller decides upon a price — the prospective customer either buys it or doesn't. No haggling. Of course, if the seller sets the price too high, no one buys. So there still remains a system of checks and balances.

Traditional pricing policies were determined from the bottom-up. Companies determined a cost of the product by factoring in direct and overhead costs. An appropriate mark-up was then charged, based upon competing pressures and "what the market could bear" (although rarely was there science to back up that hoary old phrase).

Now we're at the beginning of the Digital Revolution. Dynamic pricing has potential.

Auctions are an interesting and efficient, non-fixed, pricing system. Sellers put an item up for sale and buyers bid upon it.

It used to be that you had to displace yourself and meet at a fixed time at a fixed place to participate. Not any more — at eBay and hundreds of other online auction sites, you can bid and sell 24 x 7 x 365. And auctions can also happen in reverse — buyers say what they need and sellers submit competing quotes, an increasingly popular B2B application on the Internet.

And not only can you have "reverse auctions," you can have reverse fixed prices. The customer submits the fixed price that she is willing to pay. The company meets that price or not, but there's no negotiating or bidding. Priceline.com is a great example where you can name your price and save.

Many e-commerce businesses use group buying power to drive prices down. This type of buying opportunity even has a formal name... demand aggregation.

Of course, the ultimate in flexibility is full, two-way markets like the stock or commodity exchanges. Buyers bid and sellers ask. The exchange of product for cash happens when a bid price equals an asking price. Depending upon how large the buying and selling pressures are, prices for a stock or commodity rise or fall.

Dynamic pricing is the next potential stage of e-commerce development. If it ever gains in popularity and acceptance, it will change the face of transaction-based sites forever.

What does the future hold?

Let's consider two kinds of products...

1) Commodity — a commoditized product has lots of competition. Usually, there's nothing that differentiates it from its competitors. You compete on price. Watch for the Internet to force your margins to be razor-thin. "Bots" will haggle with you, one-to-one, and aggregated demand and markets will ultimately beat you down when they get around to bidding on your products.

Those who execute best will win this war. Source efficiently. Manufacture just in time. Laser-speed inventory turns. Proficient distribution.

It's a brutal way to earn a living. So differentiate yourself and sell...

2) Proprietary products — it's an original product with new and valuable benefits. The innovation can be in the product itself or in the marketing of the product, preferably both. How to do this is beyond the scope of this book, unfortunately. Remember, this book is just a crash course!

Original products with new features and benefits stifle "apples-to-apples" comparisons by "bots." As a result, you can set a price that will maximize profits.

Keep in mind that markets mature rapidly on the Internet — you may have to adjust pricing frequently or upgrade your product to maintain your price.

Computer hardware is a great example of both a commodity and of a proprietary product...

As a commodity, the PC clones are constantly upgrading and shaving prices to fight each other. How? It's done through manufacturing and marketing innovations ("make on demand" and selling through the Web).

As a semi-proprietary product, Macs can no longer afford to be far more expensive than Windows machines. But they have enough original features and extra user-friendliness that Apple can still set a slightly higher price.

One thing for sure**...** your competitors can be reached with a single click of the mouse. Get the price right or perish.

From a history lesson to a marketing lesson... your "pricing education" continues…

3. The 4 P's of Marketing

Marketing cycles have accelerated. Distribution occurs at (literally) the speed of light. Opportunities are everywhere. And with all this speed and opportunity **comes heavy, intense competition**.

And your customers have access to tons more information. So you better offer the best value because they're going to know it, even if you don't!

That all brings an increase in price risk. Misjudging your price points costs dramatically more than it used to. You just don't have the time for a second try.

There's an amazing amount of information on the Web about all forms of both online and offline marketing. The same goes for business books. Just about every aspect of Internet marketing is covered *ad nauseum…* everything **except** the single most important marketing decision that you'll ever make...

... pricing.

Resources are limited. Offline consultants seem to have jealously guarded this lucrative area, charging large companies thousands of dollars to get the price right.

Remember... pricing is probably the **most important marketing decision** that you'll ever make. After all, it's one of the **4 P's**, right?

Any introduction level marketing course covers the Four P's of Marketing. Yes, this old mnemonic still holds true — marketing basically boils down to a **mix of Product, Place, Promotion, and Price...**

• **Product** — the "what" that's being offered to the market... ex., a safe and secure Volvo, a high-powered macho-feeling Porsche, or simply a low-priced, "just get me there" bus ticket.

What is the customer really buying? Just the equipment of a computer system, or a computer with all the software built in and a phone number to call if the user gets in trouble?

What are you truly selling? A software package that the user has to install and figure out, or an automatically updated and improved software system, which the user subscribes to, with live online help, on a month-to-month basis?

• **Place** — the "where and how" that your product is being distributed. In other words, the **"distribution channel"** (OK, OK... so the "Place" one was a bit of a push to make it a "P").

"Place" is the difference between buying a can of cola at...

- a discount store
- a fancy grocery store
- a stand at a train station, or…
- a counter *on* the train.

In each case, it's the same can of cola, only the place changes. And, we all know that that makes a lot of difference to the price. Have you bought a popcorn and soft drink in a movie theater lately?

As a Web marketer, you have chosen the most dynamic and fastest growing distribution channel in the history of the world — **the Internet!**

If you're using the fixed pricing model, your price has to be right the first time, or you may simply not get a second crack at it.

• **Promotion** — the means that you use to "get the word out" about your product and its benefits for the customer... even if the situation is as simple as "cola vs. thirst."

Your pitch can include online or offline advertising, personal selling, publicity, search engines and so on. The Internet is the great communicator. It's just as much a **promotional vehicle** as it is a distribution channel.

• **Price** — the cost of the product being charged to the customer. The **Perfect Price** is the price that meets both the buyer's and the seller's needs.

The buyer decides if the price is acceptable by determining benefits and by considering the competition.

The seller prices to maximize profit, while considering the bigger picture business model (i.e., high price/low volume or low price/high volume). The price must pay for the cost of production, marketing and overhead costs, and still make a profit.

Ask yourself a few quick questions about the first **three P's...**

- **Product** — how can I make it better?
- **Place** — how do I ship it from place A to place B to customer?
- **Promotion** — how do I promote it?

What's the common thread for these three P's? They all **cost** you money — they turn up on the **expense** side of the ledger.
Now ask yourself the same question for **the last P...**

• **Price** — how much should I charge?

"Price" is the only P that brings money into your company! It's building up the income side of your ledger. So...

Make pricing your top priority. It makes cents, er, sense, to know what **Price** you should charge for your **Product** so that you can **Promote** it effectively and **Place** it into the hands of your customer.

Here's an important "foundation-building" type of exercise for you to do before we continue with the rest of the course. Examine your business (or your business plan, if you're not up and running yet) using a "4 P" marketing magnifying glass.

Bring into sharper focus your…

1) Product… What do you sell? What does your customer buy? What are its major benefits? How important and unique are they?

2) Promotion… How do you promote your product or service?

3) Place… How do you ship from place A to place B?

4) Price… How do you decide on which price to charge?

Take your time with this exercise. You need a strategy for every part of your business operation to guarantee success. There are so many inside and outside factors that can affect your business, some of which you have more control over than others!

However, at the end of the day, all the pieces of your e-commerce puzzle have to fit together or else your business will flounder.

Finished and ready to move forward? Let's go directly to "price to win" pricing strategies.

4. Price to Win...

Before you set your exact price, you must decide upon a pricing model. This strategy should be consistent with your overall business model. Pricing always needs to accomplish a goal...

… but that goal is **not** always to make the most money, especially when you're selling on the Internet.

At the risk of oversimplification, there are two basic business models, each with its own objective. We'll very briefly examine a few less frequently used models afterwards.

OK. Let's get the ball rolling…

Model #1 Price to Penetrate

Your goal is to penetrate the market fast and deep. In other words, sell as many of the item as possible. So you set your price low. But how low?

There's no point in giving away the store. You want to find the **highest lowest** price that maximizes profits **and** number of units sold.

Use this strategy to establish a powerful position in the market quickly. Why? The basic goal is to acquire as many customers as quickly as possible. Taken to an extreme, you might even price at a loss. Why?

For this powerful reason… each customer has a **lifetime value**. That value can be hundreds of times greater than some small gain you might make on the first sale. With this knowledge, you're happy to reduce or forego that first profit.

Penetration pricing is especially appropriate if you sense that more competition is on the way. Lock in the people who see your product being offered now.

Key point... penetration pricing only makes sense if you **keep** those customers. **There must be a strategy in place to realize that lifetime value.** Here's a quick primer on how to convert "first-time" to "life-time." Feel free to mix and match...

1) Stickiness — this is customer loyalty with a twist. Once someone buys from you, does it quickly become too costly for her to switch to a competitor? (high "switching costs"). **The costlier it is to switch, the stickier is your product.**

Offline example — Shaver handles used to be expensive. And they only fit a certain brand of blade. The cost of switching to another brand was the cost of buying another expensive handle, so customers had to continue to buy expensive refills. Hence that old phrase... the “razor-and-blade” strategy.

Online example — Consider free website builders/hosts like Wix or Weebly. Once you build a site, it becomes tough to move it elsewhere. Also, the amazingly cheap online brokers are remarkably “sticky” — it takes a while to learn a system and set everything up. Once you do that, you don’t want the hassle of switching.

2) Great product — an outstanding product guarantees the customer’s return. You **know** that she’ll be back!

Offline example — Shaving companies realized that they could make much more money, **in the long run**, from the resale of razor blades than from the handles. They started to sell the blades at give-away prices. The customers got used to a good shave with relatively inexpensive blades and just kept on buying those profitable refills. Hence that old phrase... the “razor-and-blade” strategy.

Online example — Good books and good prices are a winning combo. In the beginning, **Amazon.com** discounted prices deeply in order to dominate the book (and now every other category!) market in cyberspace. They lost massive amounts of money due to discounting. But they built a massive base of customers... lifetime customers.

3) Freeze-out — this is a variant of Great Product. You offer an “introductory low price” for a product that’s a recurring purchase for a customer. That first sale effectively sticks him to you, not your competitor... if the quality is there, of course.

Offline example — Buying a long-term membership in one gym keeps you from joining another one. You don’t join two gyms. Also, magazines — most people purchase Time **or** Newsweek, not both.

Online example — Web hosting services often offer low “first year” rates to take customers out of their competition’s hands. Then as long as they offer good hosting, customer stickiness takes over.

What’s the bottom line?

If you want to establish dominance in the market for any reason, price to penetrate... even if it means you have to accept low or no profit margins.

This pricing technique, referred to as “buying market share,” comes at a “cost,” no doubt about it. You’re foregoing the additional profits of a higher price to “buy” this larger percentage of the market.

There's one school of thought in marketing that says that "market share dominance" is the most important factor in the marketplace. The Internet raises the bar to alpine levels...

If you're pricing high on the Internet, you'd better have **a unique and patented product**. Even then, you're begging for someone to attack you with vicious price-cutting.

Model #2 Top Pricing

The opposite strategy to penetration is **top pricing**. Here the price is deliberately set high in order to reap large profit margins. This is usually at the cost of **failing to capture** a large number of customers.

The most valid reason to use this price strategy? You're launching a hard good that's radically new and significantly better than the competition, and you have strong patent protection. The high price attracts and does not deter "early adopters." This strategy helps to recoup your capital costs.

Who, or what, are early adopters?

They're people who want something that nobody else has yet. They're not afraid to be "first" or "unique" — actually, it's a badge of honor to be "first one on the block." They're not particularly concerned about price. Often, to their way of thinking, high price indicates quality. The best example of this is the number of people who camped out to buy the first iPhone.

Such must-have, open-wallet customers are your best friends. If you can **equate** uniqueness and quality with your price statement, substantial profit will surely follow. In the short term, you receive **a good income from the high-priced product**. But...

Long term, this comes at the **cost** of establishing a powerful position in the market by dominating market share (i.e., percentage of the customers). So don't stick with this strategy forever.

High prices tend to attract competitors. They see your big, fat profit margins. They know they can offer a similar product, at a much lower price than you are doing, and still take home a fair penny. (This is what has happened for Apple. Android phones now make up most of the smartphone market, because they're generally much cheaper than the iPhone.)

High price tactics are also known as "selling off market share." You gain income from those high profit margins, in exchange for having a smaller and smaller percentage of the market buying your product.

There are other valid reasons for top pricing, besides "pioneer pricing." For example...
Luxury pricing… You make a top quality product, among the very best of its kind on the market. You're able to create a certain "luxury cachet," building a high perceived value. You accept smaller unit-sales in return for higher margin. To thrive long term, of course, you must continue to offer a "best of breed" product and maintain the luxury image.

Pricing a service… If you offer professional services, you may find it preferable to cater to a small number of high-paying clients. Of course, you have to be able to "walk the walk." A diametrically opposite strategy for your same service would be to offer a "cookie-cutter" service to "the mass market" at a much lower price.

Offline example — Apple sold the Macintosh computer (with its unique-at-the-time, user-friendly graphic interface) for years, at prices that were $1,000-$1,500 above that of the PC clones. In the long run, though, their lowered sales volume allowed IBM and its clones to become the industry standard. Apple almost died as a result.

Offline example — The DVD. Pioneers covered the R&D costs and delivered fat profits. Over the years, the DVD became fiercely competitive and prices evaporated. Today, it's a commodity.

Offline example — Mercedes Benz is an excellent example of luxury pricing. Unlike the VCR, Mercedes can sustain its top-pricing model for as long as it delivers a superb automobile **and** maintains the image.

Online example — High-end design companies capture a niche market based on their uniqueness, which can't be copied. These companies usually can only handle a limited number of clients at a time. Customers are willing to pay a higher price for this selective service.

Before you adopt this strategy, remember that market penetration (i.e., unit sales) will be hurt. Does that make a difference to you? If so, then decide when you will switch strategies.

Be careful, though. You have to carefully watch the **public relations** side of this. If people hate your company for taking advantage of them, your death will be quick and painful. One thing Apple always did right — their users loved (and still do!) the Mac. They never felt ripped off, even though they could have bought comparable computing power for far less money.

It applies to services, too…

Professionals and consultants often don't give enough thought to the rationale behind how they price their services. Basic goal-setting and strategizing up-front will clarify matters. For example...

Pretend that you're in the price consulting business. One of your services sets up pricing surveys for companies.
Let's examine two scenarios...

Scenario #1, Top pricing — you don't want to grow a huge consulting business — you just want to support yourself and shoot a few games of pool the rest of the week. So you charge a higher price, $500. The last thing you want to do is to have too many clients, which means working more hours per week and making the same (or less) money.

Scenario #2, Penetration — you want to use this pricing service as your **foot in the door** for your higher-priced services. You don't mind breaking even or possibly losing some money in return for more customers. Each customer has a lifetime value, in terms of future business, referrals, etc. So you may decide to offer this service for $100 as an "introductory offer."

Model #3 Price to Kill

Large companies will often price a product at a great loss, just to drive smaller competitors out of the field. In many cases, it's not strictly legal. But who has the resources to fight gray-zone cases?

Model #4 Price to Lose

Do you know the irony of the "price to penetrate" and "price to kill" models? Most of us do neither... or both, depending on how you look at it.

Let's say that you price to penetrate — you want to pick the price that finds the most customers, right?

Let's say that you top price — you want to pick the price that makes the most money, right? Unfortunately, most business people tend to skew a penetration price too high, trying to make more money. Likewise, top "pricers" tend to worry about scaring off too many people.

Don't price in that in-between "No Man's Land." Decide whether you want to price to penetrate or to get the top price.

Now apply this information to **your** business. Ask yourself these questions…

1) What was my goal when I chose my pricing model originally?

2) Knowing where I am now with my business, should I have chosen a different approach?

3) What are the pros and cons of my pricing strategy?

4) Which model do I see myself using three months from now… with confidence?

Pricing is a complex topic for almost all of us. The key is to look at it from different angles. Each new perspective gives different chunks of information to increase your understanding of pricing theory and how it affects your business.

Finished with the reflection exercise? Good timing. The next "angle" is stepping up on the podium…

5. The Psychology of Pricing

Psychology influences our daily lives. Sometimes, it's so subtle that we don't even know it's happening. Consider these powerful examples…

- the comforting smell of fresh-baked bread in a house to ignite childhood memories of food or family in the prospective home-buyer.
- **f**resh flowers/produce near the grocery store's entrance to encourage impulse buying — something that's not "on the list."
- big sale signs at the back of the boutique to force the customer to walk by all this season's trendy clothing styles.
- the offer of coupons or big prizes on a website to get visitor clicks and cookies.

All four of the strategies above involve psychology. It's a reality in the business world today. You have to be able to get inside your customer's head. And not leave one empty space for your competitor! It's a race for "share of mind."

Pricing is no exception. The "Perfect Price" is that price that maximizes your profits while building a lifetime customer through value satisfaction.

How do you define "value satisfaction"? By putting yourself into your customers' shoes. Simple but often ignored advice. Sometimes a vendor thinks that s/he knows what's best for the customer. Let's call it the "mothering-smothering effect."

If you reverse your viewpoint by coming at it from your customer's angle, then you start to look at your product differently. (That's the funny thing about psychology, it works on both sides of the business fence.)

Price to attract those first-time customers and let the value of your product "keep" them with you for a lifetime.

Naturally, you don't decide whether to penetrate or top price on this basis alone. But once you're in the ballpark, it helps to have a keen understanding of human nature. Let's start with the most well known example…

1) The Right Number

Some prices just **sound** like less money than other prices that are very close to them in value. Take the price of 99 cents. It sounds a whole lot cheaper than a dollar — the same way that $9.99 does with $10.

Humans buy on emotion first, rational thought second. If they can say “and it’s under $50,” it’s one more plus for you.

Point to take away?

End your price in a **5, 7, 8, or 9** and be on the right side of human nature.

Let’s also consider what Eric Mitchell, involved with the Pricing Society, observed about the rules of **rounding off** prices, based on his market research...

For Prices up to $10... It makes more sense to use $0.99 rather than $0.95. Respondents’ reactions are the same for both numbers. So why leave 4 cents of profit on the table?

Odd price endings like $0.74 can sometimes cost sales. They cause some confusion in the customer... $0.74 just doesn’t “sound right.”

For Prices from $10 to $100... “.95” and “.75” price points are much better received than “.99”. In this price range, there’s a resistance to “.99” because it’s often viewed as a “greedy” price point. Think about a restaurant menu... the special of the day is usually set at $12.95, not $12.99.

For prices above $100... It’s better to deal in “whole” dollars. From the customer’s viewpoint, $149 is a more acceptable and cleaner price point than $148.95.

Pricing a professional service? Price in whole dollars. Choose $50 per hour rather than $49.75. You’re not “on sale,” are you?

Reception (of a price) is based on **perception** (of that price). Make it positive!

2) The Value Bundle

Something for nothing. Don’t we all love that? Definitely! Value-bundle, if possible.

What’s “value-bundling”? Simple, really. Group related products and set one price for the combination. This works best if the grouped products have a logical association with one another.

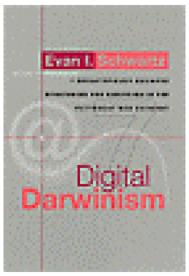
Customers tend to assign value to a bundle, based upon the probable cost of individual “pieces.” Value-bundling is a powerful method if the price of your bundle equals the price of the most expensive component.

Offline example — You commonly see vacation packages where air tickets and ground arrangements (hotels, meals, bus tours and so on) are advertised at one eye-catching price... **everything** you need for the perfect vacation. If the price of the bundle is just a bit more than what your customer would pay for the air tickets separately, your customer has that wonderful “something for nothing” feeling!

Online example — many software aggregators bundle a number of applications together and charge one price for all of them.

The bigger the bundle, the better!

For more about online bundling, read Evan Schwartz’s fine book...



Digital Darwinism : 7 Breakthrough Business Strategies
for Surviving in the Cutthroat Web Economy
by Evan I. Schwartz
Broadway Books; ISBN: 076790333

Schwartz makes one fascinating point. A bundle of digital goods will make more money than if you sold the pieces individually... even if not all the grouped pieces are seen as valuable for all customers. He also suggests selling ultra-high value products outside of the bundle and marketing them as a premium product... at an extra fee.

3) Discounting

You’ll always find me **over by the “SALE” rack.**

I love a good bargain. Most folks do.

On the Internet, you start a product launch with a huge advantage — **you can reach all your previous customers** with the click of a mouse. When you introduce a new product, offer them a discount off the regular price. Send these supporters to a special discount URL. Do the same for your affiliates. Both deserve it. **They’ll appreciate that you appreciate them.**

Quantity discounts are really worth considering, especially if you’re shipping hard goods. Go beyond the obvious reduced “per unit shipping charge”... offer “three for $20” (or better, $19.95) for that $7 bottle of wine.

Sure, the margin is a bit less... but your gross is much better. Your customer saves on shipping, product cost, and gets that “under $20 psychological boost.” And your competitor? Well, that’s two bottles of wine that he’s **not** selling to your customer!

Discounting can be used in a variety of other ways... for seasonal deals, special markets like seniors and students, affiliate (or distributor if you’re offline) network.

Whether you use it to build existing customer loyalty, for quantity savings or for competitive reasons, discounting can be a **strong tool**. Define the goal clearly, though, before you discount. Otherwise, you’re just giving money away.

4) “Reverse Discounting”

“Geez, it has to be good — look how expensive it is!”

Quality is in the eye of the beholder. And a high price tag can certainly help **create** a higher perceived value. After all, is Mercedes really worth three times a Ford? Is a Tiffany’s diamond really worth five times more than the same one on eBay?

This can work if you’re selling the snob appeal of a status symbol to the wealthy, or a high-priced, big-name service to multi-national companies. But don’t try this for most products on the Internet, especially if you sell digital products.

If you simply set a high price for a new product with the hope of increasing net sales due to a high-perceived value, you’re headed for pain. Big time pain.

Yes... if your site makes a great sales effort, you will be able to build a higher perceived value. And that will support a higher price.

Whatever that value is, when it comes to selling on the Internet... **never price beyond the value that your website creates and that your product supports.** This is essential knowledge if you want to build a successful, growing, long-term business.

5) The Infamous “Plus S&H”

“Plus shipping and handling”... That famous phrase! Everyone’s aware of these hidden charges, of course. But somehow S&H are just not part of the price.

Let’s say that you charge $39.98 for a Crocodile Dundee knife. Plus, of course...

Shipping & Handling of $9.98

So, Mr. Smith, what does that knife cost? $49.96? No, by the time Mr. Smith has decided he must have the “That’s-Not-a-Knife-Now-That’s-a-Knife” knife, it only costs $9.98.

Including S&H in the price of your product is a big boo-boo. It can only mean one of two things...

1) Your product looks $9.98 more expensive… or...

2) You're losing money. You can only do that for a while. If you build customers on the basis of price, be prepared to lose them when you have to start making money.

> We should add one warning. People do notice S&H if you gouge them. Don't make a profit on S&H — just cover your costs.

Naturally, if you're shipping digital products directly via the Internet, S&H are free!

6) Price Elasticity

If demand for your product **drops** when you increase the price by only 1%, you have a product that's very price-sensitive or **price-elastic.**

If, on the other hand, doubling the price only causes a **slight** drop, you have a **price-inelastic** product — that means that it almost doesn't matter what price you charge because people will still buy it.

Elasticity is largely driven by **customer perception** of your product and the competition.

If you're a grocery chain selling your own brand of instant coffee, your coffee **better sell for less** than the brand names. Bump the familiar price up and watch your inventory sit on the shelves.

But if you sell a top-line, in-fashion, **gourmet brand of coffee, it can be a license to print money**.

What kind of products are price-inelastic?

Products that...

- deliver important benefits to the customer.
- offer uniqueness that's understood and valued by the customer.

Take-home lesson?

No matter what approach you use, it has to "ring true" to your customers. They will only be attracted to your price and product if it's **worth** it to them. As Sam said back in Chapter 1… your customer must profit from you.

That's why you need to "know" your target group. Who are they? What are their needs? What wishes are they trying to fulfil or what pain are they trying to solve.

Do you know? Let's see how you can find out…

6. Know Your Customers… Know Success!

"Any customer can have a car painted any color
that he wants so long as it is black."
— Henry Ford (1922)

Clearly, Mr. Ford felt that he controlled the car market... to the point of disdain for the desires of his customers. Think about this for a second....

Henry Ford **knew** his customers wanted their cars in other colors. Yet he felt that he had such a lock on the marketplace that there was just no need to listen to them.

Ford went on to lose serious market share to "upstarts" like General Motors. That's why Bill Gates keeps a picture of Henry Ford on the wall of his office... an object lesson of "fatal attitude."

Mr. Ford ignored customers when it came to one of the **big P's... Product**. Do you think he listened to them when it came to **Pricing**? I'm sure he never asked!

Do the majority of business owners have that enviable position today? Sadly, no — we all work in a hyper-competitive market place. Yet how may owners ask their customers for input about **perceived value** (i.e., what it's worth to them) and pricing? Do you?

This is a "reality check" chapter. Get ready to plant your feet squarely on the ground... and set those rose-colored glasses aside for the time being. Most business people don't need those glasses anyway.

Why?

When it comes to pricing, their heads are firmly embedded underground. ;-)

Profit. You have to make a profit or you won't survive. The right price is critical to your commercial future. As I said in the Introduction, pricing **is** your most important marketing decision.

Misjudging your price points in this digital era costs dramatically more than it did in the past. Internet markets mature rapidly. You have to be prepared to adjust pricing frequently or upgrade your product/service to maintain your price. Price is never static.

So, what do you need to do?

Get the e-business success equation right!

Great Product + Perfect Price + Right Process + Satisfied Customer = Success

A buyer decides if the price is acceptable by determining the benefits of the product and by considering the competition.

The seller prices to maximize profit, while considering the bigger picture business model (i.e., high price/low volume or low price/high volume). The price must pay for the cost of production, marketing and overhead costs, and still make a profit.

Let's say that Product X costs you $20 to make, market, sell, and distribute. But let's say that your customer is only willing to exchange $10 for it.

The success equation is definitely "off the rails" at this point and will stay there, permanently, unless some major modifications are made.

Bottom line?

The most important determinant of price is always what the product is worth to the customer.

Before your prospective customer can tell you what your product is worth, she must understand what it will do for her. So you must be able to answer the question...

"**What's in it for me?"**

That's where an effective website is absolutely necessary. A great site educates the customer about your product's benefits and features. It builds perceived value.

Features are elements of a product (or service) that **do**, or that **are**. Benefits are the results the features **do for your customer**. They connect at an emotional level by delivering a gain or curing a pain.

All benefits add to the perceived value of your product or service. The higher the perceived value, the greater the chance you have for a sale (or a download, or a subscription, or a contract, or whatever is your Most Wanted Response (MWR) — i.e., whatever you most want your customers to do when they are on your site).

So… figure out your target group. Who is most likely to see the benefits of your product immediately? Do the words on your website reflect that awareness?

Picture your customer. Create a "persona" or "avatar" for your typical customer. Now write for that customer. Thinking of a single person automatically helps your copy feel "one-to-one" as you write. If you think of thousands of people as you

write, your copy will take on an impersonal, broadcast tone. You know your customer best, so talk to him or her!
Bottom line?

Your site not only has to get the sale, it has to build perceived value in your product. When the customer "gets it," both the perceived value and the conversion rates will be high.

Only benefits answer the critical question... "What's in it for me?"

Now for the next "reality" lesson of the day...

A theoretical price for your product may look reasonable and saleable on that fancy spreadsheet or after a discussion with your hired pricing consultant. But it might be totally off-base to your customers' personal prices. And if it doesn't jive then you might as well leave the dance hall.

You have to know confidently at which price point your customers are thinking "Yes, this is worth it." Or conversely, at which point **price-resistance** kicks in. That's the price where your customer starts to think "I don't need that as much as I thought I did."

How well you identify this powerful point of consumer decision-making depends on how well you **know** your customers — what their needs are… what gains they want to achieve… what pain they want to eliminate.

Not sure how well you know your targeted market… or how well you let them know that you understand them?

Use these questions to clarify your thoughts…

1) What method do you use to get to know your customer? How do you know what they think about your product, its price, and your competitors? Have you ever used an email survey? Do you have a regular scheduled newsletter that has a feedback section? Have you tried contacting your customers by phone?

2) Does your site "fit" with your customer profile? Will it effectively attract ("flag") your customers? Does it provide the type of information they're seeking?

3) How would you rate your website for "Builds Perceived Value"? Will your customers be able to clearly answer the "What's in it for me?" question? Or do you concentrate more on features than benefits.

Everything in business should be customer-focused, including how you price your product.

Do what I do. Get a picture of Henry Ford and put it on your desk with a yellow Post-it note... **"Listen to the customer... s/he has all the answers."**

Your customer's perceived value of your product or service will determine whether s/he pulls out the credit card or not. A high perceived value is more than an important consideration…

7. High Perceived Value Rules!

Pricing sounds so easy in theory, but ever so difficult to do in the real world. Actually, up to now, it's been impossible for small to mid-sized businesses to do it in the same manner as the Fortune 500.

Perfect pricing does more than just maximize profits — it **leverages** them. Here's how...

Let's say that you have a net profit margin of 10% (i.e., after all expenses, including overhead, etc.). If you could increase the price by 10% without losing a single sale, you would obviously increase gross income by 10%. But that 10% increase in price increases your **net profits** by 100%!

And you'd still keep a happy customer who will return again and again. Talk about a win-win situation!

But there are two big **ifs** in there...

... **If** you don't lose a single sale

and…

... **If** your customer is still thrilled with your product.

How can we be sure of those **ifs**? Where do we find the Perfect Price?

Simple… with the customer.

Picture this...

You have a glass of water to sell. You're selling it next to Niagara Falls. Now, put yourself selling the last available glass of water **in the middle of the Sahara Desert**. No rocket-science here...

The most important determinant of price is what the product is worth to the customer.

So many companies forget this nowadays. So let's return to good old Sam P. just one more time...

The successful producer of an article sells it for more than it cost him to make, and that's **his profit**.

But the customer buys it only because it is worth more to him than he pays for it, and that's **his** profit. No one can long make a profit producing anything **unless the**

customer makes a profit using it.

Let's say that Product X costs you $20 to make, market, sell, and distribute. But let's say that your customer is only willing to exchange $10 for it. This is obviously **not** a profitable thing for you to be selling! Contrary to what we're told by used car dealers on TV, you cannot "make it up in volume!"

Naturally, for every product that you sell, you know your cost of production. So all you really need to **know** is "what it's worth to your customer." Remember, if your customer does not "make a profit" on your product, s/he won't be back.

Since any business thrives on **lifetime** relationships and not one-night stands, you must, must, must...

Know that price point at which your customer makes a profit by buying your product. The key word in the preceding sentence is, of course...

Know. Not "guess" or "ball park" or "gut feel"... **know**.

What does knowing what your customer will (and won't) pay mean to you? Simple... you'll know how many widgets that you'll sell at every single price point. That means that you'll be able to set your most profitable price… a price with the best profit for both you **and** your customers.

I have a sneaking suspicion we could price SBI! at $1,000. But our goal is to make as many SBI! users as profitable as possible and as quickly as possible, and we have no need to price at the levels that SBI! is really worth.

SiteSell's goal has never been to "milk" maximum dollars, to "upsell" or to play any other "sales games" with our customers. Instead... we simply provide value. We know SBI! is still under-priced at $299, but it gives us enough breathing room while still making it as accessible as possible.

And that brings us to how you can figure out the value of your product… and price it profitably for you and your customer…

8. Why Guess or Presume? Go to the Source!

There are many different ways that business owners go about trying to figure out what price they should use. Depending on the nature of your business, you ***could*** try the following strategies...

- Evaluate product features and customer benefits
- Consider the size of your target market
- Evaluate your channel of distribution. High or low cost of entry?
- Mark up x% over your cost of production
- Factor in your capital costs (ex., R&D, equipment) over the expected volume/product life cycle
- Factor in marketing and overhead expenses, distribution costs, sales commissions, discounts, and finally, of course, your desired profit
- Undercut competitors' prices
- Ask key (friendly) customers
- Consider the value perceived by your customer
- Get feedback from sales people
- Weigh typical customers' "disposable income"
- Solicit advice from consultants or business associates

And if you simply mixed all these factors together, you could come up with a "number" (i.e., price) that you hope proves to be profitable. Right?

Wrong... unfortunately.

Even if you do every single one of the above, the data is just too soft. Too imprecise. Too biased. But more importantly, it's incomplete. You still don't know how the customer will react to your price.

Sophisticated companies develop very involved spreadsheets to factor in everything. They'll use it to figure out the break-even point. A price is set that covers all the variable expenses associated with that product (cost of production, marketing, etc.) and a part of the company's fixed costs (ex., overhead). When enough units are projected at the right price, break-even is achieved. Any price above that break-even point is profit.

Here's the flaw... they haven't factored in **customer value satisfaction**. The company has no idea how much the customer values the product — how much it's worth to him or her. If the company gets only half the volume at a price that is, let's say, 10 % above break-even, what's the point of that beautiful spreadsheet?

Solution? Go to the source and ask…

A well-written online survey can give you the information you need… directly from your prospective customers. They will tell you their perceived value of your product and what they would be willing to pay for it… **as long as** the wording of your questions attracts and encourages a response.

When preparing your survey, ask only for information that's absolutely essential to the pricing process. The more questions you ask on the Internet, the fewer people answer.

Start with a list of questions that you would like to ask. No need to censor yourself at this point. Think about your target customer and let your creative juices flow. Once your list is complete, begin to weed out the non-essential questions. It may take several rough drafts before you're satisfied that you have identified the key ones.

Develop questions that are easy to understand and make your customer think clearly, yet easily. You want to avoid lazy thinking and loose answers.

Your whole survey should look inviting and easy to answer… the psychological keys to getting a response. Keep it short and to the point!

Formulating the questions for your survey will not be a two-minute challenge. Figuring out **what and how** to say it effectively will take time and effort… as you revise, delete, add, tweak until you get the wording just right!

Why so much attention to a questionnaire? Your final analysis relies on the strength and appropriateness of the questions you asked.

Poor questions… poor responses… poor results.

Make productive use of your time and your customer's. Lay the proper foundation, the first time.

OK. Let's continue with the next part of the course…data collection…

9. Data Collection Tips

Keep this in mind when you are collecting any type of data...

Garbage in, garbage out!

In the case of your survey, follow these important tips…

1) Duplicate reality as closely as possible…

Follow one key rule and you'll be fine. Let's call it **"The Golden Rule"...**

Duplicate reality.

A survey is not reality. A customer buys your product... that's reality.

So your survey should mirror reality as closely as possible. Two examples...

- show and tell your **actual target market...** i.e., genuine prospective customers
- show and tell your prospects in the same way that they will actually learn about your products.

The closer your process duplicates what will actually happen, the better. If you break the Golden Rule, do it only after careful consideration. Do it only if you know how to factor the difference into your final pricing decisions.

2) "Show & Tell" the right people…

Show and tell your prospective on-target customers. Obviously, that's the best way to duplicate reality.

There will be times, however, that you use an off-target group of respondents. For example, **suppose that you'll be direct-selling via your website.** But you want to keep your site and product confidential until launch. You can "distort reality" in several ways. Two examples...

i) Hire a consultant to select customers to do focus groups.

The consultant can either show and tell, in the company's offices, via a temporary, password-protected website. Or she can do a person-to-person demonstration of the product's features and benefits — she would ask the six questions during these sessions and then input the data into your survey later.

Either way, reality is distorted. You'll still get solid, useful information, of course. But do consider whether you have duplicated your true Web-buyer's situation sufficiently — if not, do the results need to be adjusted up or down, and by how much, to compensate?

ii) Send your sales affiliates to the site (if applicable).

For example, SiteSell is well-represented on the Web by thousands of **a**ffiliates. In past situations, we have generated a lot of responses in a hurry by asking them to complete a survey. We use this feedback strategy because it's fast and news about the upcoming release stays confidential until the **full product launch**.

Of course, we recognize that the affiliates do not represent our exact target market. Normally, the affiliates send other people to SiteSell's sales sites.

Overall, however, we consider the pricing answers of our affiliates to be only a few percent higher than the typical customer — affiliates are slightly **less targeted**, but somewhat **more enthusiastic**. We adjust results accordingly.

Take-home lesson?

As much as possible, **show and tell your actual prospective customers**. If you have to vary, do it in a way that deviates from reality as little as possible. And factor that difference (for example, the enthusiasm of your affiliates) into your results.

3) Show & Tell in the right way…

How will your **real** customer buy your product? That's **how** to show your survey!

If your customer will review your website presentation and then buy via the Web, show and tell your prospects by using **the exact site** that will be doing the selling.

If, for example, your customer will see a TV ad and then go to Wal-Mart to buy, hire a researcher and do an offline survey.

No matter how you show and tell, do not explain that this is a pricing survey — if you do that, you bias the respondent. So don't call attention that you want to use this to **price** your product.

Think of it this way... When a customer is on the verge of buying your product, she's being **price-surveyed, except it's "for real"!** She has to decide whether it's "worth it." But she does not **know** (or even consider) that she's being **price-**surveyed. Nor should your respondents.

Again, the bottom line is...

Duplicate reality.

4) Take your time…

Read your survey to make sure that there are no typos and that the language is smooth — will your typical respondent understand? If not, go back and adjust. To maximize response rate, really aim for perfection on your survey.

5) Write a good introduction…

The introduction is critical. Its Most Wanted Response (i.e., what you most want your visitor to do) is to get the response. It must persuade your prospective customer to complete and submit the survey.

Let's say you're about to launch a new e-good. Your survey is ready. Here's how to get your MWR…

STEP 1) Create a new site, or a new addition to your existing site, that's dedicated to selling your new product to customers.

STEP 2) Do some light marketing (through newsletters, a small percentage of your affiliates, ads, etc.) to drive some targeted traffic to the site. Remember, **the goal is to attract respondents who are as close as possible to your typical prospects — recreate reality.**

STEP 3) When your visitor clicks on the Order button, she instead goes to your survey page. Now it's time for your introduction to go to work.

STEP 4) Welcome her to your pre-launch. Explain that you will be full-launching in a week. Right now, you need her help...

If she can spare a minute or two to answer a few short questions (remember the more questions you ask, the less likely you will get a response about your product), you would be delighted to offer her a 20% (or whatever **maximal** number you can afford) discount. That discount will be a sure-fire way to generate some early sales as soon as you launch!

In the final part of your introduction, just before you get to the survey, explain exactly what it is that's being offered in appreciation for their time and effort. "Give then take."

And, as we've already said about your introduction, one **key last point...**
Keep It Short and Simple.

6) Test your survey…

Check off your "to do" list...

You've written the introduction. You've incorporated the HTML of the survey into a company template. And you've uploaded it all to your site. Great!

Ready to launch to thousands of people, right?

No! No way! STOP!

Test it now to save embarrassment and lost sales later. It's easy. Just ask a few folks to pretend that they're customers. They visit the site and complete the survey. Even do a small **usability test** — watch two people as they do it. It only takes two to get decent feedback.

Make the adjustments and then do another small test. Stop testing when all seems to work well.

Your survey is ready to go "live." Now what you need is enough interested people to respond because…

10. No Replies… No Information

The number of responses affects how meaningful the information you collect will be. Your goal should be at least 50 to 100 replies. Data at this level yields more reliable information that you can act upon... with confidence.

If 50 to 100 replies sounds like a lot, this may be a good time to develop a traffic-building program. SBI! helps you succeed at attracting targeted visitors to your site — with its help you can build traffic in an extremely time- and dollar-efficient way.

But right now, you need answers...

METHOD 1) Be patient. Let your survey run until you get at least 50 respondents. That's the most important advice we can give you... **be patient.**

METHOD 2) Send an email to your affiliates or to your existing client base. Offer them a sneak preview of your new product and a 15-25% discount if they'll take the time to complete a survey.

METHOD 3) Make a post via Facebook, Twitter, a targeted newsgroup, forum or mailing list, etc.

Once you've found your target audience, tell them about your sneak preview. Ask them to complete the survey. As your thanks, you'll **give** them your product (especially affordable if it's a digital product, but even if it's a hard good, your actual cost is not that great) — seriously, make this generous offer or you'll be flamed for trying to sell to these groups.

METHOD 4) Same as METHOD 3, except write an article or place an ad in a targeted newsletter.

METHOD 5) Buy your most important keywords at Google AdWords. Most of the time, this won't cost you more than $0.50 to $1.00 per click. Put $100 into the account — odds are you'll have enough answers before you spend the whole wad!

METHOD 6) Visit targeted chat rooms and ask for volunteers.

METHOD 7) Ask suppliers, your best customers, distributors, your own sales force, friends, etc. to respond "as if they were" average customers. Recognize that this deviates from reality and that you may have to adjust results slightly to compensate for the difference.

METHOD 8) Hire a professional researcher to do offline research, then enter the data.

METHOD 9) If you're on a budget, do offline research yourself. There's no limit to where and how to do this... street canvas, in your office, at a store, etc.

METHOD 10) Get creative and learn from this experience. All you have to do is get 50 people to answer six questions — think of original ways to accomplish this simple task. If this proves to be impossible, you may want to kill the project — after all, how will you ever influence people to **buy** your product if you can't convince them to take the time to **reply** to your survey?

Bottom line?

Even if you just phone 50 friends and associates and get the data, you're way ahead of launching your product without this data.

You need to get a sense of your target market's perceived value of your product before you fix the final price. As Sam said…*the customer must profit too.*

Data in. So the next logical step is…**data out**.

Analyze your collected responses carefully. Display your findings in a format that you find easy to understand and that quickly gives you a good overview of your survey's results. Most people find a spreadsheet works well in this situation.

Try to pull out as much valuable information as you can from the different responses. Look at them from different angles so that you can pinpoint as closely as possible the perceived value of your product — what it's worth to your customers. With that golden nugget of information and your own "profit" considerations, you can establish the perfect price.

The pricing process, when done properly, does take time and effort. Remember that guiding principle… garbage in, garbage out.

And that brings us to the end of *Make Your Price Sell!, The Masters Course*. Interestingly enough, we have come full circle. We are back to the success equation… and how you *can* be successful online.

11. The Success Equation

Pricing is definitely one Marketing "P" that you ignore at your (sometimes fatal) peril. On the Internet, you may not get a second chance if your price is off base the first time. An anxious-to-please competitor is only a click away.

Make Your Price Sell!, The Masters Course has shown you that…

- Price is the only "P" that brings ***income into your business*** — it extracts the value that the other 3 Ps (Product, Place and Promotion) build in your customer's mind.

- A high perceived value is ***the*** critical determinant in establishing the perfect price — over and above your choice of business model (high volume or high profit) and product development/production/marketing costs. Your prospective customer must feel that s/he will personally ***"profit"*** by buying your product — that it's personally ***worth*** it — before a credit card will come out of the wallet.

- The best way to ***know*** — rather than guess or presume — what the perceived value level is for your product is by going directly to the source. Ask your target group. With the help of a well-written survey, you can calculate the perfect price… ***the price point where both you and your customers profit.***

And this is where we come full circle with *Make Your Price Sell!, The Masters Course*. We began with a focus on the customer and now we are finishing with the same. Put your customers' needs first and you will be successful on the Internet.

The *success equation* that was outlined in the introduction chapter of this course sums it all up…

Great Product + Perfect Price + Right Process + Satisfied Customer = Success

As was noted earlier… achieve the first three parts of the equation, and the other two automatically fall into place!

Make Your Price Sell!, The Masters Course has given you what you need to know and do in order to achieve the ***Perfect Price***… and by extension, a ***Great Product***. If the perceived value of your product is very low or non-existent, you know that you either need to quickly improve your product or ditch it completely and find a new one.

The ***Right Process*** builds income: Content-Traffic-PREsell-Monetize***.***

The process is very doable.

Take charge! Move forward!

Build the business of your dreams.

Make Your Price Sell!, The Masters Course

SiteSell Inc.
1000 Saint Jean Boulevard, Suite 702
Pointe-Claire, QC, Canada
H9R 5P1