

The Six-Step Guide to Pricing Your Product

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Bob Barker fans know how tricky it is to guess the price of a product. Harder still is guessing what customers are willing to pay for your own product.

Too bad setting price is one of the most critical challenges faced by any entrepreneur. "Assuming you have a product worth selling, price is the biggest factor that affects the success," says Sunil Garga, president of business and consumer insights for Information Resources Inc. (IRI), a test-market researcher.

While big companies can afford to blow millions of dollars to run sophisticated tests in multiple markets, small shops have to rely on less perfect information (and a healthy dose of gut instinct).

Pricing pros will tell you that setting a product's price involves as much art as science--but it doesn't have to amount to spinning the wheel on *The Price Is Right*.

Here are six simple, relatively low-cost steps at making that best guess.

Step 1: Can You Brand It?

Say you are selling applesauce. The range of market prices is massive--from about 28 cents per 4-ounce cup for America's Choice brand at the local A&P to \$3.10 for the Earth Best Kidz Organic brand at a Wild Oats grocery store.

Setting a price starts with a basic question: Is yours a branded or generic product? If it's generic, stop reading, charge the market rate and run your operation as lean as possible to preserve what little profit margin remains. If you think your product has unique features--a new health benefit, greater convenience, sexy style--that you can charge more for, read on.

Step 2: Do Qualitative Research

Start to hone in on the right price by running focus groups to get a sense of what customers are willing to pay.

If it's applesauce you are selling, ask consumers about what they like about applesauce and what they don't; that way, you will know if your marketing message will hit home. Don't ask them directly what they would pay for a particular kind of applesauce (customers tend to low-ball their answers), but instead ask how much they think such an applesauce would sell for in a store.

Typical focus groups contain eight random people and, if farmed out to a consultant, cost from \$3,500 to \$6,000 per session. Whatever way you do it, run at least two identical sessions to confirm your findings.

Step 3: Do Quantitative Research

Courtesy of FocalPoint of Atlanta
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You've done the soft stuff--now it's time for some hard numbers. This step involves in-person or Internet surveys, or perhaps product trials with feedback forms. Sample questions: What price do you pay for applesauce? Would you be willing to pay a higher price for an applesauce with certain characteristics?

This research is even more costly than the qualitative kind, so you'll have to come up with your own questions if you want to save some dough. When it comes time to blast out the surveys, check out SurveyMonkey.com or InstantSurvey.com, which charge from \$300 to \$2,500, depending on the number of people you want to contact.

Step 4: Plan Your Attack

Before you set your price, decide how you want to attack the market. Will you try to hobble competitors by going low and stealing market share? (That's what **News Corp.** (nyse: [NWS](#) - [news](#) - [people](#)) chief Rupert Murdoch tried to do by charging a quarter for *The New York Post* to compete with hometown rival *The Daily News* at 50 cents; the *Post's* circulation has gone up, but profits haven't.) Or, do you charge a higher price and capture a smaller, but perhaps more committed--and profitable--customer base?

Step 5: Pull The Trigger

At this point, a big company like **Procter & Gamble** (nyse: [PG](#) - [news](#) - [people](#)) or **Johnson & Johnson** (nyse: [JNJ](#) - [news](#) - [people](#)) might pour huge sums into running tests in a bunch of markets to figure out the optimum price for a new product. Small companies simply can't afford to do this. So take what information you have, marry it with your strategy and pick your price.

Step 6: Don't Let Success Go To Your Head

So your applesauce is selling like gangbusters and you figure: Why not raise the price and bank a few more bucks? Be careful: It's much harder to jack prices than it is to lower them; indeed, you could send shoppers running the other way.

If sales are sluggish, consider lowering the price--but not by too much. For consumer packaged goods, even a 1% decrease in price can lead to a 5% increase in sales, says IRI. Slash prices, though, and you could tarnish your brand's image permanently.

Like we said, pricing is tricky stuff.