A purely competitive firm finds that the market price for its product is $20

Alex Laats is President and Chief Operating Officer of the company. I'm a bit of a workout enthusiast and tried out a new upscale gym. When I was leaving one day feeling healthy, there was a man on the way out giving away free plums. He told me they were local plums and at the same time told me that they were opening a new store for this kind of local fresh produce just around the corner. As an entrepreneur and business enthusiast, I thought: Hmm... This guy has a pretty good idea of his product-market match. It has fresh, local produce and a small shop where it sells products at higher prices for health conscious people willing to pay higher prices for things like gyms and better food. Cool... If you have great new technology, it is not always easy to determine how to pack the technology in the form of a product that will appeal to a particular market. A good product-market match is hard to achieve, and that's the main reason why most tech startup businesses end up in failure. So, how can we put the deck together in favor of success? A good way to start is by selecting a few general assumptions that can easily become traps, and some suggestions on how to avoid them. Assumption #1: If we build it, they will come Technology entrepreneurs often so amazed by their technology they think it's all it takes in order to attract customers. What matters is not whether the technology is great, but whether the technology creates a performance or price advantage that will motivate the customer to buy. Assumption #2: Huge market - we'll take it all! Many entrepreneurs see their target market too broadly. In 1999, I founded a company to provide access to mobile applications with a combination of VoiceXML and wireless access protocol. Our definition of our target market was originally mobile phone users. We had the false feeling that we were going after a huge market when, in fact, we did not do a good analysis of which mobile phone users would get the most value from this functionality and for what content or applications. If your analysis is based on a high level view of the market and it comes down to a few technical staff saying: This market is huge! I encourage you to go back and do a deeper analysis. The reality is that your actual target market is probably under the general market segment. In the case of my first company, we developed a replacement for the traditional VoIP-based business phone system. The overall market for business phone systems was $10B, but part of the market that was targeted by our technology was the small business segment. This segment of the market was even larger than $1B in annual sales, so there was still plenty of room to create Assumption #3: Just wait - this market will appear (and we're going to make it happen) When you break the existing market, you know, there are a lot of customers who spend for an existing solution. The challenge is to use your technology to create a product with price and performance where your technology has a competitive advantage over others. If the market has not yet appeared, this is a big problem because you have to predict the market will appear and your product will have the right price and performance. This turns out to be extremely difficult, but there are certainly success stories (Apple) that fit this profile. Entrepreneurs (Steve Jobs) who can intuit the appearance of a market a little, and far from each other. However, if you can do this, you may have fewer competitors at the beginning going, especially if your solution basically allows the market to exit. Assumption #4: I can see the market clearly, so I should be able to contact it with a product-market match that's not just a function of figuring out what features and product prices should be in order to win sales from the target market segment. He should also contemplate the way to market through marketing and sales. If marketing and sales are not cost effective, you don't have a business. Referring to the case of my first company, once we decided on the target small business market, the question was then how to create our sales and marketing in order to reach the small and medium-sized customer business. Answer: Go where a typical small and medium-sized business customer buys their business phone system. In the U.S., that is an independent reseller, so we structured our marketing and trading efforts to allow resellers across the U.S. to sell our system, and we created a pull by selling directly to small businesses and transferring deals over resellers as a means of generating momentum. It was a ton of work, but it was a success! Final Assumption: I have enough gas to finish the journey ... Right? Often, technology entrepreneurs start a business and find that their product market coincides with an iterative approach of trial and error. Build something. Let's see if anyone buys it. If not, change and try again. This process works under certain circumstances, but it is equivalent to exploring a cave without light. This often leads to gridlock and most entrepreneurs do not have the resources to study endlessly. Think about the value from the end-user perspective and identify the market segment where the price advantage is most acute. Take a minute to explore whether the market segment is big enough to make it worth your time, and be sure to figure out what it will cost you in terms of sales and marketing to reach the market. Whether you're mortgage your home or raising venture capital (or both), you don't want to run out of cash before you find your product-market match. Once you found it... everyone wins. The views expressed are the author's views and do not necessarily reflect BusinessNewsDaily. Product pricing should be in line with industry and category. However, depending on the quality, features and and even a unique sales offer manufactured through advertising, the product can price itself into a higher range of pricing categories. There are a number of prevailing pricing strategies used in marketing. From product to product, one or more of these pricing strategies can come into play during the product lifecycle. A product that has a demonstrated benefit or attribute on other products in the same category can price itself well above existing prices. Tide laundry detergent is such a product in the washing powder segment. Liquid Tide can cost almost 10 times more than other branded detergents such as Arm and Hammer or Gain for the same amount of product. Over the decades, Tide has repeatedly improved products, as well as high advertising costs, reporting superiority over competitors and justifying its position as a leader in pricing. Matching is a competitively priced tactic used by marketers to take the price question off the table. This tactic is used by a company that can be more competitive with other features and benefits. The price of conformity puts the competitor on the defensive. The gasoline industry sets prices according to the price of crude oil in the first place. However, from block to block, there will be price comparisons or even price wars between local competitors. A product can undercut the price with the recognition that it is in a difficult position against a strong competitor, and the only way to compete is to lose money on price but make it to the volume sold. This is known as lower prices. With this strategy, unit sales become a measure of market success, not dollar sales. The goal here is to make up the losses realized from the lower price with the growth of unit sales from the attractive price, which creates higher demand and therefore a higher total dollar volume. Another price strategy is to sell the product at such a low price that the company loses money with each purchase. This strategy is usually a short-term strategy that a product uses to generate demand for itself or another product the company is selling in the same product category. The bread spread maker can price its jelly as a lost leader and charge a premium for peanut butter. Customers believe that both products have a good price, although it could be significantly higher than the prices of competitors. This pricing strategy is used when the goal is to move the unit of the product without taking into account the price. This method is often used in stores that close or when new seasonal goods are due in store, but the current stock of last season's goods has not been sold. PricingOne of the secrets to business success is to price your products properly. The price of your products is correct, and that can boost how much you sell, creating a foundation for the business, will thrive. Get your pricing strategy wrong and you can create problems that your business may never be able to overcome. This is probably the most difficult difficult have to do, says Charles Toftoy, an associate professor of management science at George Washington University. It's part art and part science. There are different types of price strategies in business. However, there is not a single true, formula-based approach that is suitable for all types of products, businesses or markets. Your product pricing usually involves considering certain key factors, including identifying your target customer, tracking how much competitors charge, and understanding the relationship between quality and price. The good news is you have a lot of flexibility in how you set prices. That's bad news, too. The following pages detail how to meet business product pricing targets, what factors should be taken into account when pricing, and how to determine whether to raise or reduce prices. Dig Deeper: How to Profit From Market Research How the Price of Your Products: Meeting Business GoalsGet Clear About Making MoneyFirst Step is to get a real clear idea of what you want to achieve with your pricing strategy: You want to make money. That's why you have a business. Making money means getting enough income from selling your products, so you can not only cover your expenses, but take profits and possibly expand your business. The biggest mistake many businesses make is to believe that price itself drives sales. Your ability to sell is what drives sales, which means hiring the right sales people and adopting the right sales strategy. The first thing you need to understand is the sale price is a function of your ability to sell and nothing else, says Lawrence L. Steinmetz, co-author of How to Sell on Fields Higher Than Your Competitors: Winning every sale at full price, rate or fee (Wiley 2005) and business consultant in Boulder, Colorado for 40 years. What's the difference between an $8,000 Rolex and a $40 Seiko watch? Seiko is the best piece of time. It's much more accurate. The difference is in your ability to sell. At the same time, be aware of the risks that accompany making bad pricing decisions. There are two main pitfalls that you may face - under pricing and more pricing. Prices. Pricing your products to too low a cost can be disastrous for your bottom line, although business owners often believe that this is what they should be doing in a down economy. Accurate pricing of your product is crucial at any point in the economic cycle, but no more so than in a recession, says Laura Willett, a small business consultant and lecturer in finance at Bentley College in Waltham, Massachusetts Many businesses mistakenly under the price of their products are trying to convince the consumer that their product is the least expensive alternative hoping Volume but more often than not it's just perceived as cheap. Remember that consumers want to feel that they are getting their money's worth, and most of them are unwilling to buy from a seller they believe is less Willett says. Businesses also have to be very careful that they fully cover their costs when pricing products. Lowering prices to the point where you give away the product won't be in the firm's long-term interest, says Willett. Over prices. On the other hand, overpricing a product can be just as harmful as a buyer will always look at your pricing competitors, Willett says. Pricing for a customer's willingness to pay can also reduce sales. Toftoy says that one trap is that business people will be tempted to price too high right out of the gate. They think they have to cover all the expenses of the people who work for them, rent, etc., and that's what the price it takes to do it all, he says. Put yourself in the customer's shoes. What would be a fair price for you? He advises taking little surveys of customers with two or three questions on index card size forms, asking them whether pricing was fair. Understand your other business priorities there are other reasons to go into business. Understand what you want from your business when pricing your products. Aside from maximizing profits, it may be important for you to maximize market share with your product - it can help you reduce your costs or it can lead to what economists call network effects, i.e. the value of your product increases as more people use it. (A great example of the product's network effect is the Microsoft Windows operating system. You may also want your product to be known for its quality, rather than just being the cheapest on the market. If so, you can price your product higher to reflect the quality. During the downturn, you may have other business priorities such as survival itself, so you can price your products to recoup enough to keep your company in business. How the price of your products: Factors to consider there are many methods available to determine the right price, says Willett. But successful firms use a combination of tools and know that the key factor to consider is always your client first. The more you know about your client, the better you will be able to provide what they value, and the more you will be able to charge. Knowing that your client is taking some kind of market research is essential to getting to know your client, Willett says. This type of research can range from informal surveys of your existing customer base that you send by email along with promotions to more extensive and potentially expensive research projects run by third-party consulting firms. Firms exploring the market can your market and segment your potential customers in great detail - by demographics, by what they buy, by whether they are sensitive to prices, etc. In terms of several different groups - budget sensitive, convenience in the center, and those for whom status matters. Then figure out which segment you're targeting and price accordingly. Know your costsA basic pricing principle is that you need to cover your costs and then factor in the profits. This means that you need to know how much your product costs. You also need to understand how much you need to mark the product and how much you need to sell to turn the profits. Remember that the cost of the product is more than the literal value of the product; It also includes overheads. Overheads may include fixed costs such as rent and variable costs such as shipping or stocking fees. You should include these costs in your estimate of the real value of your product. Come with X first. X is your raw material cost, labor, rent, and all it took to make the product so that if you sold it you would break even, advises Toftoy. Y becomes what you think you need to do on it. Restaurants in general make up about 4 percent, which is pretty low. If you want 10 percent, then you factor that into your expenses and that's what you take. Many enterprises either do not take into account all their costs and price, or literally take into account all their costs and expect to make a profit with one product and, therefore, overpay. A good rule of thumb is to make a spread sheet of all the costs that need to be covered each month, which may include the following: Your actual product costs, including labor and the cost of marketing and selling these products. All operating expenses are required to own and manage the business. Borrowing costs (debt servicing costs). Your salary as an owner and/or business manager. Return of capital that you and any other owners or shareholders have invested. Capital for future expansion and replacement of fixed capital as they age. List the dollar amount for each of your spreadsheets. The total amount should give you a good idea of the gross revenue you will need to generate to make sure you cover all these costs. Know your target income you should also have a target income, how much profit you want your business to make. Take that goal of income, factor in your costs of producing, marketing and selling your product, and you can come up with a price for the product you want to charge. If you only have one product, it's a simple process. Estimate the number of units of this product that you expect to sell within the next year. Then divide your target income by the number of units you expect to sell and you have the price at which you need to sell your product in order to achieve your revenue and profit goals. If you have different products, you need to spread the overall goal of income for each product. Then make the same calculation to come to the price at which you need to sell each product to achieve your financial goals. Know your competitors It's also useful to look at the competition - after all, your client is likely to be, too. Are the products offered comparable to yours? If so, you can use their pricing as the original sensor, Willett suggests. Then see if there is additional value in your product; Do you, for example, offer an additional service with your product or your product is perceived to be of higher quality? If so, you may be able to maintain a higher price. Be careful with regional differences and always take your expenses into account. It may even be worth preparing a head-to-head comparison of your product's price (s) on your competitor's product (s). The key here is to compare net prices, not just list (or published) prices. This information can come from phone calls, secret purchases, published data, etc. Take notes during this process about how your company and products - and competition - are perceived by the market. Be brutally honest in your assessment. Know where the market is headedclearly you may not be a soothsayer, but you can track external factors that will affect the demand for your product in the future. These factors can range from something as simple as long-term weather to laws that may affect future sales of your products. Also take into account your competitors and their actions. Will your competitor react to your new product on the market, involving your business in a price war? How the price of your products: The decision to increase or reduce the size of PricesOne is not suitable for everyone. You can only go so far pricing all your products based on fixed price items from the cost. The price of the product should vary depending on a number of factors including: What the market is willing to pay. How your company and product are perceived in the market. What your competitors charge. Is the product highly visible and often bought and compared. The estimated amount of product you can sell. This opens the door to raising and/or lowering the prices of your products. In order to make this call anyway, you must first understand what is already working. Analyze the profitability of existing products so you can do more of what works and stop doing things that don't work. You want to know which of your existing products make money and which are losing money. You may be surprised at how many of your products are losing money - fix these as soon as possible. You also have to constantly review your expenses. To sell it properly, you have to buy it correctly. If you are having a hard time selling a product with an acceptable profit, the problem may be that you are not buying the product correctly. It is possible that your cost is too high and not your price is too low. When to raise prices - and HowYou should always test new prices, new and new combinations of benefits and premiums to help you sell more of your product at a better price. Test new offers every month. Raise the price and offer a new and unique bonus or special service for Customers. Measure the increase or decrease in the amount of product you sell and the total gross profit of the dollars you generate. It is a fact of life in business that you have to raise prices from time to time as part of managing your business wisely. If you never raise prices, you won't be in business for long. You have to constantly control your price and value, so you are both competitive in the market and you are making the kind of money that you deserve to make. The best way to determine whether a product is being evaluated correctly is to monitor sales immediately after any changes are made, says Willett. This can be done by browsing cash collections (if business cash or credit card based) or credit sales (if receivables are used) within a few weeks after. If the price increase is too high, customers will react fairly quickly. You can also watch the competitions - if you have made a positive price change; competitors are likely to follow suit. But there is a right way and the wrong way to raise prices. You don't want to push away your existing customer base by raising prices too steeply, especially during an economic downturn. Instead of a sudden increase, there is a strategic plan for two to five years during which you gradually increase the price from 5 to 10 percent, Toftoy tips. If the business is in trouble and you say: Hey, I'm going to point everything up, that kind of scares people away. So you didn't go from $5 to $15. You went for $7.50 first. In terms of price increases - it's easier to take in good economic times, says Willett. As the basic cost of production of the product increases, the customer is ready to accept the increase in the price of them. If the customer believes that the costs of the firm go down while their price goes up. This will not be well received and will probably have the opposite effect. When you lower prices - and HowYou can realize that you missed your target audience, the pricing of your products is too high. You can always choose to discount your products or give customers something for free in order to get them to try out their product or generate traffic to your store or website. You have to get people in, says Toftoy. People like to get something for free or some kind of discount. You can make Wednesday a pensioner day when seniors get a 20 percent discount. Then maybe you can offer the student a discount day. Then all you do is keep the price the same, but for those people you give them a cut, but that's not the case as you lowered all the prices. Typically, lowering prices isn't a good practice if you use it strategically to gain market share and price-sensitive product, or if all of your competitors are lowering their prices, Willett says. The alternative to lowering the price is to offer less for that A price tag that will effectively reduce your costs without appearing to reduce the cost to the customer, she says. Restaurants found found especially useful in terms of portion sizes, but the same strategy can be applied to the service sector. Price monitoring At the same time, a key component of pricing your product is to constantly monitor your prices and your underlying profitability on a monthly basis. It is not enough to look at your company's overall profitability every month. You should focus on the profitability (or lack of profitability) of every product you sell. You need to make sure that you know the extent to which every product you sell contributes to your goal of making money every month. Remember: People respect what you check. Here are some other practices that will help you price correctly: Listen to your customers. Try to do this on a regular basis by getting feedback from customers about your prices. Let them know that you care about what they think. Keep an eye on your competitors. If you don't have deep pockets and can't afford to hire a market research team, hire some college students to come out on a regular basis and monitor what your competitors are doing. Have a budget action plan in place. Try to have a plan for your prices that extends from three to six months in the future. You are required to do this for yourself and for your business to be relentless in managing your product pricing. Remember, how you set the price of products can be the difference between the success - or failure - of your business. Related links: Example: Finding the right price for the hot productLuke Skurman's quirky college guide was a big hit. The problem was getting readers to pay. What if he gave away the content? Recession pricing strategies: how low can you really go? Tempted to lower prices? You're not alone. The price of RightSetting prices has always been more art than science. The new software aims to change that. The right PriceToo many new entrepreneurs are harming their own prospects by pricing their goods and services. But if these company owners just take the time to think, they can set their prices closer to fair market value. Is it time to raise prices? Increase your profits by taking guesses out of pricing. Flexing your muscle pricingSS years have almost no inflation, you may have more price power than you think. Here's how to implement it without bruising yourself in the process. Recommended Resources: The Art of Pricing: How to Find Hidden Profits for the Growth of Your BusinessBy Rafi Mohammedwww.rafimo.com Author has a very interesting point about how to get out of pricing Catch 22 by adopting a few price thinking. How to sell on the margins higher than your competitors: Winning every sale in Full Priceby Lawrence L. Steinmetz, and William T. 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