

## Avoiding the Perils of Pricing

By Jim Geisman, MarketShare, Inc.

*We've all been to the **New Product Show**. You know... the one in three acts? The one that puts everyone on the emotional roller coaster ride of Excitement, Pandemonium and Despair: You know – this one...*

*Act I: Product team finishing new product to make upcoming launch deadline. Marketing people arguing about copy, graphics, web design. Sales people pre-announcing new product to customers. **Excitement**.*

*Act II: Product almost finished. Deadline looming. Pressure building. An anguished scream is heard: "Pricing!" Everyone screams. "Oh no! We haven't set prices". Senior marketing executives tells junior level person, "Do it!" **Pandemonium**.*

*Act III: Junior level product marketer "does it". Prices much like competition – only lower... Time runs out. Product launches. Modest sales. Immodest discounts. Gnashing of teeth, wringing of hands, "down round" ensues, fade to black... **Despair**.*

Setting prices that will stick takes skill and experience. Doing pricing successfully can help companies sell more product, at lower discounts and make the numbers.

Here are ten tips that can help you be more successful as you develop your pricing and discounting policies.

**1. Learn your customer's business.** This is the most important thing for you to do. Only then can you make sure your product/service offering creates value for your customers. Customers value products that make or save money, save time or make them feel good/avoid pain. Understand how your products create value. More features doesn't necessarily mean more value.

**2. Always focus on (and sell) value.** Your salesforce or selling proposition must focus on the value your software creates. All of your company's materials -- whether they appear in the hands of your salesforce, in print, or on-screen at your website -- must reflect the value you deliver to your customers. Reinforce your product's value proposition to maintain your prices.

**3. What does it cost to reap the benefit of your product or service offerings.** Implementation costs reduce the benefits you deliver and introduce risk. If you are willing to bear more of the implementation costs, make sure your customers will pay you to do so.

**4. Pricing should make sense to your customers and salesforce.** Make sure there is a consistency and internal logic to your prices. The easiest way to do this is to make sure your product architecture can be packaged in a way that maps into perceived benefits. Customers that pay more should get more.

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**5. Run the numbers before publishing the price list.** Run different pricing scenarios. Make sure your pricing strategy fits your company's objectives. There is nothing right or wrong with a penetration (low price) or skimming (high price) strategy. If you are well funded, you can pursue an unprofitable, low price strategy for market penetration a lot longer than a company that is bootstrapping.

**6. Look at the deals you do with customers.** When you give volume or other discounts to certain types of customers, make sure they deserve what you give them. Large orders deserve higher discounts than small ones. Loyal customers should be treated better than price buyers. Frequent customers should get more than infrequent customers. Not all customers (or revenues) are created equal.

**7. Avoid playing "Let's Make a Deal"** If customers or sales think your prices are too high, ad hoc discounting is likely to occur. If your salesforce plays "Let's Make a Deal" make sure the discounts are reasonable. Judge the reasonable-ness by comparing the amount of money you gave up with the value you get from the customer in terms of promotional value, product feedback, future sales, etc.

**8. Ask for something in return for discounts.** Never give discounts without getting something (monetary or non-monetary) in return. Higher volume commitments, larger up-front purchases, endorsements, etc. are all good reasons for giving up discounts. Make sure the discounts given are commensurate with the value your company receives. Discounts are remembered; the reasons they were given are not.

**9. "Good" pricing comes with clearly defined products.** Despite how obvious this is, many companies do not define the scope of their product or service. If you do not do this, you cannot tell when you have fulfilled your end of a commitment. This is especially true for services because the cost of services is so expensive.

**10. Count deliverables so it makes sense to your customers.** Match what you count (licenses, users, servers, etc.) with the customer's business practices and processes. If you serve similar markets, usage patterns may be similar which means you can count licenses with a single licensing scheme.

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*This article is adapted from **101 Tips for Software Vendors: How to Price, License and Negotiate Software Deals** a booklet available on [SoftwarePricing.com](http://SoftwarePricing.com).*

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