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5 Pricing Strategies to Win Against Price-cutting Competitors

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BlackCurve provides software to price smarter for increased profitability. BlackCurve brings together your price management, quotations, and price analytics into a single integrated software platform.

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Introduction

In a crowded marketplace, it may seem that price wars are inevitable. A price war is an event whereby two or more companies continually lower prices to undercut each other and gather custom. Airline companies and supermarkets are famous for their price wars. Recently, when Wm Morrison announced that it would invest £1bn cutting prices over the next three years, it threatened to turn the regular skirmishes between Britain's biggest grocers into trench warfare in the supermarket aisles.

The so-called big four – Tesco, Asda, J Sainsbury and Morrison – have competed relentlessly over the past five years, trying to win cash-strapped customers as the volume of food bought fell for the first time in living memory.

Seasoned supermarket watchers say this time the situation is much more serious as new challengers have emerged. German discount supermarkets such as Aldi and Lidl have not only been expanding aggressively, but have been shedding their no-frills image. Their new luxury products have appealed to the squeezed middle classes. According to Kantar Worldpanel, the consumer research group, more than half of all British consumers have shopped in Aldi or Lidl. Other value retail chains, including Poundland and B&M are also helping change the competitive landscape as they expand into the grocery market.

Justin King, chief executive of J Sainsbury appeared dismissive of rivals' price tactics, describing them as part of the usual "cut and thrust of the market" and dismissing the threat of discounters as nothing new.

Such concerted action by the discounters could however lead to a nightmare scenario for the big four, eroding profits and weakening their balance sheets, only to see little impact on sales.

When it comes to budget supermarkets, it seems there's no such thing as peace and goodwill at Christmas. Aldi opened up a new front in the festive price war by launching its own version of the iPad costing just £79. Tesco has enjoyed huge success with its low-priced Hudl tablet, which launched in September. But, at £119 it was now far more expensive than the Aldi Lifetab.

Experts said that while the quality of budget options might not compare with Apple's original tablet computer, the affordability factor would lead to a rush of new sales. Tony Cripps, of technology analysts Ovum, said: 'it is a real threat to anyone in the tablet market.

Britain's supermarkets have suffered their first fall in sales in at least 20 years as lower food prices and a vicious price war cut the amount customers spend on groceries. The new offensive is focused on cutting the prices of everyday items such as milk and butter – which towards the end of last year saw farmers protesting loudly and invading the aisles with their livestock in tow!! The supermarkets were forced to agree to a minimum price for milk.

Slashing prices to beat the competition can hurt your credibility, brand image, and margin more than it helps. Some companies may choose to sell a product or service at a loss in order to capture market share and outbid competitors but it's a risky strategy.

The 5 Strategies

You need to build a competitive advantage without cutting prices. Try the following strategies for starters:

1. Be brave - stick to your premium pricing

It may seem contradictory, but charging a premium price (setting the price of a product higher than similar products) - and sticking to it - can actually be used as a competitive advantage. It's common to assume that all buyers will be making a purchasing decision based largely on cost, but it's rarely the primary reason a person buys.

This strategy is sometimes also called **skim pricing** because it is an attempt to "skim the cream" off the top of the market. It is used to maximize profit in areas where customers are happy to pay more, where there are no substitutes for the product, where there are barriers to entering the market or when the seller cannot save on costs by producing at a high volume.

Premium pricing can also be used to improve **brand identity** in a particular market – known as price-quality signalling because the high price signals to consumer's higher quality. Some companies use this strategy to give their product an aspirational image. The longer a company can keep its competitive advantage, the longer it can charge a premium price.

Some brands can continue to charge a premium price because their entire brand image is based around luxury. According to John Quelch, of Harvard Business School, it can be very challenging for companies to maintain a premium-priced brand while trading as a public company. Luxury brands, such as Prada, often chose to remain private businesses, so they can stay small and exclusive, and continue to use premium pricing.

Unique products usually have the best chance of commanding premium prices. This is one reason why pharmaceuticals - where the product is protected by patent - tend to be very expensive. This is especially true of technology products. A recent example of this is 3D games market, where the technology is still very new.

A prospect may lead you to believe price is the deciding factor, but buyers actually tend to be wary of prices that seem too low - it sends a message about your product's quality. Instead, standing by your premium pricing and acknowledge that your product is more expensive makes a strong statement about your credibility. British Airways will always be more expensive than the budget airlines but passengers expect greater customer care, reliability and comfort for their money.

2. Focus on value, not price

Value, not price, is almost always the most critical factor in a purchasing decision. Having a valuable product is one thing, but having the ability to sell value is what will set you apart in a market of cheaper options. It's the regard that your product is held to deserve, the importance, worth, or usefulness that creates value.

In order to create value for your buyers, you must understand the unique standards and expectations of your customer. For example, what makes one tyre more expensive than another? To determine that, you'd have to ask these questions:

What are you going to use the car for? Does the tyre need to get you round the Top Gear racetrack at 120 mph? Do you need an off-road tyre?

Using value as a competitive advantage requires customizing your solution to best meet your prospects' needs.

You've been telling your prospects all about the great value that they will receive when they purchase your product or service – but they just don't seem to be listening? Does this scenario sound familiar? All they seem interested in is the price – and they may also be pressuring you to discount.

If you apply the following techniques your prospect may stop going on about price and concentrate on the value you are offering.

Have a 'heart to heart' conversation first

Forget about selling and concentrate on why they need your products. Ask the right questions to determine whether in fact you can help. You could call this the 'discovery phase'.

Let them realise the value of your product before you wade in

If you tell your prospect immediately about the value you offer, they may or may not see this as relevant. However, if you ask the right questions so your prospect tells you the value of solving their problem, they will then see this value of interest. The big difference is that they have told you (and themselves) the value as opposed to you telling them.

Make the conversations work in your favour

How do you get your prospect to look forward to having more conversations with you? You want to build a rapport by asking the pertinent, powerful questions about their problem and what it is costing them. They will realise that you have a valuable skill by shedding light on their issues and enabling them to gain clarity by talking to you.

Add your value to their value

Once your prospect has realised the value you can offer, they will be receptive to the additional value you can add. They have convinced themselves to take action and the easier it is for them to justify buying your products and services. Their decision will be based on value, not on price and focusing on value rather than price is better for you, too. Customers who understand value, and the higher price tag that accompanies it, will be better buyers in the long-term.

3. Beef up your product delivery and customer service

In competitive industries, a company's ability (or failure) to deliver a product or service in a timely, agreed-upon manner can make or break a customer relationship.

When prospects tell you they can "get the same thing somewhere else for less," ask yourself this question: "Then why are they even talking to me?" If they really can get the same thing for less money, why are they still engaging with you?

If you can provide better implementation support, superior customer service or a more timely delivery service than your competitors these will help you justify a higher price.

4. Engage in helpful selling

The ability to reach out to prospects in a professional way, on their own terms, is the currency of sales success in today's competitive marketplace. Today's buyers are more in control of the sale than ever before, and with that added control comes a decreased willingness to talk with salespeople who only care about getting the deal. Show you care!

5. Don't 'give in' too easily

Just because someone asks you for a price cut, does not necessarily mean they expect to get it. Professional buyers and key decision-makers know that many sellers will drop their price at the first sign of resistance so they ask everyone for a discount - and they can be aggressive in their approach. Experienced negotiators loose respect for people who cut their price too quickly and refusing to cave in right away is seen as a show of strength. This teaches your customer not to repeat the aggressive behaviour in future transactions. If you stand your ground they will not necessarily go elsewhere – and you have won their respect.

Conclusion

It's a fact that falling prices do tend to attract more customers – generally, however, we get what we pay for. Even if your customers try to convince you otherwise, they do understand this principle. Instead of racing your price-cutting competitors to the bottom, promote your product's strongest assets to create value that outweighs a lower price.

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