Pricing vs. Value into the Year 2000

By Steve W. Geiger

During the last decade, the strategies in which products and services are priced have changed drastically! A transition from the value-based pricing of past decades to the value-based pricing of the late 90's, and now into the year 2000, has occurred. The term "value," and what it means to consumers, is at the heart of this change. How can a business cope with this transition in pricing value? There is no simple answer, but here are a few definitions and strategies that may help.

Most marketers are aware that consumers must feel as if they are getting a good deal for their money, and thus they are getting a good value. This concept has not changed over time, because the consumer's perception of value is the real key. Perceived value is the goal of any good pricing strategy. It is the price that consumers feel is appropriate in order to have this feeling of getting a good deal. If consumers do not perceive that they are getting a good value, they will not buy.

In today's market, pricing is one of the greatest factors in creating perceived value. Quality and brand loyalty, whether you may think so or not, have come in a far second in the late 90's and will in the coming years. If you want to be competitive, you better be aware of this fact! Of course, price has always been an important factor to consumers, but now it is more important than ever.

There are two basic strategies when considering how to price for value: A "premium" pricing strategy or a "discount" pricing strategy. Premium pricing is the strategy of pricing products or services high for greater profit and less volume of goods sold. With a discount pricing strategy, products or services are priced lower with profits made by a higher sales volume. Competition, the specific industry, and whether the product or service is being newly introduced to market (the period of lifecycle) are other considerations when deciding on a pricing strategy.

The foremost factor for pricing strategy is "supply and demand." If there is great supply, price lower to compete. If there is little supply, price higher to profit. When there is little demand, price lower to make a sale. And when there is great demand, price higher because the consumer will pay. Whichever way you decide to approach your pricing strategy, don't forget about consumers' perceived value. When your pricing strategy is right, soaring profits will be your reward!

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