



# Entrepreneur Incubator

## Reference Article

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### 8 Pricing Strategies you can Implement Right Now

As a companion to my review of the book "The Art of Pricing," I'd like to highlight 8 pricing strategies that Rafi Mohammed, the author, offers. Each pricing strategy asks you to use psychology with your customers. Most of these strategies have stood the test of time — for a reason. They play to human behavior.

Try some of these strategies and see what they do for your business:

- 1. The Nine and Zero Effect.** People associate the number nine with value and zero with quality. Look at the difference between fast food and a gourmet restaurant. A burger meal can sell for about \$4.99 while a gourmet entree at the best place in town may go for \$30. So the psychology of pricing isn't so much about gaining additional sales because the price appears to be lower, it's about what the price communicates about your offering. So which do you want to communicate? Value or Quality? Now you can price accordingly.
- 2. Payments to Promote Satisfaction.** Anyone who has ever paid for a gym membership and quit the second month has been part of this pricing strategy. If you offer a one-time payment, customers will perceive the item free after a while and not use it as often — thereby limiting satisfaction. Customers who pay more frequently for a product or service use it more often and perceive more satisfaction. So you're better off charging monthly rather than a one time fee.
- 3. Prestige Pricing:** Higher prices connote higher quality. Luxury brands are the perfect example of this strategy. A latte at Starbucks has a higher perceived value than a basic coffee with cream. Simply improving the look, packaging, delivery or promise of your product you can justify a higher price and support a prestige pricing strategy.
- 4. Anchor Pricing:** When consumers are unfamiliar with a product, they will use the highest priced model within a category as an anchor. Private Label brands in the supermarket are a good example of this strategy. They are placed close to the branded product and the price is typically 15% lower.
- 5. Quantity Suggestive Pricing:** Consumers are receptive to purchasing items in suggested quantities. This is the strategy that is responsible for my eating too many Arby's sandwiches. The offer typically reads "5 for \$5." When you suggest how many you want your customers to buy and give them an attractive price, they will do what you tell them.
- 6. Large versus Small Losses:** Offer your customers multiple payments of less money. Think QVC (the shopping TV channel) offering items for 4 easy payments of \$29.99 which is more appealing than \$119.96. This strategy plays well with strategy #2 — multiple payments promote greater



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satisfaction. So your customers will not only perceive a lower price, but actually appreciate your offering more because they will pay more frequently.

**7. Stuffing the Bundle to Convey Value:** But wait there's more! Consumers perceive more value when there is more stuff included in the bundle. You can even call this a form of value-building. TV infomercials are notorious for this strategy. They introduce a main product and keep adding more and more items to the mix to build value — while simultaneously "discounting" the retail price.

**8. Everyone Loves a Bargain:** Using banners announcing large discounts increases purchases. There are two kinds of discount store shoppers: (i) those who are price sensitive because they can't afford to spend more, and (ii) those who are price sensitive because they are bargain seekers and don't WANT to pay more — they want to feel like they got a great deal. Big "Sale" and "Discount" signs make both sets of shoppers feel good about their purchase. If your price compares favorably in the marketplace and you're offering a product or service for less — tell your customers so. Do not be afraid to show them how much less your price is or how much more they will save.

Use any of these strategies, or a combination of several of these strategies and see how you can uncover hidden profits in *your* business.

**About the Author:** *Ivana Taylor has spent over 20 years helping industrial organizations and small business owners get and keep their ideal customers. Her company is Third Force and she writes a blog called Strategy Stew. She is coauthor of the book "Excel for Marketing Managers."*