



Build Your Business

An eNewsletter for
CEOs looking to
grow their companies.

High-value, "how-to" articles on customer-attraction, sales development, leadership, and best-practices in HR, IT, product development, communication, financial operations, engineering and M&A/value creation.

Are You Leaving Money on the Table?

How does your team *know*? You may also be losing revenue and stunting your corporate growth due to mis-priced offerings. How can you & your team learn what the market will bear? How can they get inside your customers' heads and learn what you need to know – *to build your company even faster?*

Written by:

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SYNERGY CONSULTING GROUP

Helping Business Outperform Itself

Are you Leaving Money on the Table?

How do you *know*?

How do you determine what price to charge for your products and services? Do you add margin to your cost? Do you see what competitors are charging? Do you guess?

If you make pricing decisions using these 'methods', you may be leaving money on the table. Worse, you may be fighting to sell solutions that simply aren't as highly valued as you would like.

As the CEO, you trust your team to make all the right decisions. But often – and as a result of them being responsible for their functional areas – they tend to think more tactically than strategically. They have to, just to get through the day. But as you know, your roll as the leader is to create an environment for others to be successful. Sometimes that means sharing insights in innovative ways to turbo-charge your growth. This is one of those ways.

This article will show you how your team can get inside your customers' heads – and learn the optimal price points for almost any product or service you currently carry or are considering developing. It addresses a powerful method of maximizing revenue through *value pricing* and focuses on how to price your products and services.

What got you here won't get you there.

How do you currently price products? Do you review your competitors' prices? Do you "cost out" your solution, then add a mark-up? Do you talk to a few customers and ask what they would be willing to pay?

The first two methods, though essential in understanding your competitive positioning, don't give you a true understanding of how customers will value your products or services. And the third method can yield misleading results. Often, *lower* than what the market will really bear.

Reach into Your Customers' Minds... and Hearts

When do you figure out the price? *Before* you develop a product, or afterward? If you were to learn that markets (read: customers) don't value your offerings sufficiently enough to buy them, wouldn't that be nice to know *before* you spend any money developing it? That would be strategic and cost-effective way to reduce your financial risks.

Many people say that marketing is an art, not a science, and that you have to feel your way around the situation to determine the best price for your products or services. And typically, companies are so focused on their product that they'll develop it and release it to the market only to find out it's not selling. Perhaps it's too expensive. But maybe, it's price is so low ("to gain market share") that it is viewed as too cheap, such that prospective customers question its quality.

None of these approaches will maximize your revenue or company value. In fact, without performing the right pricing process before you even start developing your products or services, you may well be spending time and money you don't need to. Worse, your released product may cause you more cash-flow problems than it solves.

Actual Situations Where Money was Saved and/or Revenue Increased

Before the process is outlined, there are some examples to share:

[1] Initial price too low: By "talking with" several prospective customers, a client of mine had determined that the selling price needed to be \$295 per year, for a recurring-fee product (*like Turbo-Tax, only not*). After several informal discussions over about three or four months, my client (while continuing to "talk with" prospects), raised his price to \$695 per year, without serious pushback. Right before launch, I was able to help them implement the process described below. The "sweet spot" was \$1495 per year. 115% over the last "good" price, and over 400% more than their starting price. There were a couple customers who would have paid \$20,000 per year. But that would have limited my client's market to about 2%. Many of my client's prospects considered anything under \$1000 as too cheap, such that they would question its quality and not buy it. This means that my client would have sold *fewer* products, at a lower price had he stuck with his gut, and those of a few vocal prospects. Bottom line: He asked the wrong question: "What would you pay?" This will yield too-low of a price - every time.

[2] Licensing fee too low: Another client had developed a product and was talking with one of the twelve OEM houses in the world - to license their product. No production was required on the part of my client. Only developing a licensing contract, then watching the money roll in. The discussions between my client and one of the OEM producers - had the price settling on \$8 per unit (wholesale) that the OEM produced & sold. The OEM doubled the licensing fee to their end user (to \$16, retail), and planned on selling the option represented by my client's product.

I helped my client perform pricing research - with the *end-user*. Not the OEM company. We found that the pricing sweet spot was \$25, at list. This means that my client's customer was going to leave \$9 on the table. When presented with that information, my client negotiated an agreement with the OEM for a \$12 licensing fee. My client's effective net profit increased 50%, from \$8 to \$12. And his customer also won. Subsequently, my client received an order for \$250,000 worth of product licenses the first year. The additional revenue (and effectively their additional profit) was \$83,333. The ROI on that pricing activity was over 10 to 1. And that was just for the *first* year.

[3] Price too high: A client had developed an idea, and asked that I join them in an interim executive role as CEO. The first order of business was to determine if there was a "there", there. That is, what would the market bear, and could we afford to launch into this market? Investment capital would be required, so we would need to make a case that we did our homework, and *knew* we could build a company.

The system was fairly complex, and had hardware, software and sensors to be developed. Through "manufacturing engineering", we determined that an installed solution that could save customers up to \$200,000 a year would cost about \$50,000, which meant we needed to sell it for about \$70,000 to build a profitable, growing company.

When we performed pricing research, we uncovered the true value prospective customers would place on it. Although one customer said he would pay more than \$200,000 for our solution, the sweet spot for pricing was \$6,500. Clearly, the market didn't value it, even though it would save serious money. Instead of sticking with an eventually-losing enterprise, we folded operations. It would have been unethical and immoral to try to raise any capital knowing this. And it would have been a terribly frustrating process - to try to sell to 5% of the market, and only (try to) build a \$10 million a year company instead of the \$100 - \$200 million a year company we thought we could.

[4] Product re-defined: Another client of mine had developed a product with 18 features. The short version of this story is that - through pricing research - we found that 6 of those features were not valued at all, while an additional 3 features would *double the price*. (We performed pricing research with the 18-feature product, then updated the description, deleting reference to the 6 low-requirement features while adding the 3 most-mentioned features.)

Through this process, my client learned that he should have performed the pricing research *before he ever wrote one line of code*. He would have then concentrated on the most-wanted 15 features. He would have saved himself time and money, and would have had a product worth twice as much.

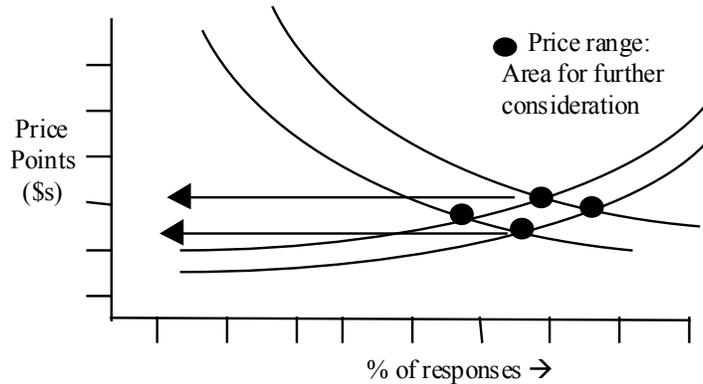
There are other examples, most of which point to the fact that people tend to undervalue their products. Or worse, miss out on a unique opportunity to learn what *else* the market would value even more. Before developing products or services.

How to Optimize Your Prices – For Highest Customer Adoption

The process described below is designed to help you determine your product's *value from your prospective customers' perspective before* you even start your design.

- 1) First, determine your product's features, functions and performance. Figure out what *you* think its benefits would be for customers. Then write up a *brief* description of this product.
- 2) With your product description in hand, choose five to ten potential customers in your market. With each of them, explain that you are doing market research and will need no more than four or five minutes of their time (and keep it to that.). After reading the product description ask them these five questions, *in this order*: [1] At what price would you consider this product expensive? [2] At what price would you consider this product *inexpensive*? [3] At what price would you consider this product *too* expensive, such that you would not buy it? [4] At what price would you consider this product too cheap, so that you would question its quality? [5] What features would you add to increase the product's value to you?
- 3) Now, plot out the data points from the four pricing questions in Step 3) so that the four curves have the largest gap at one end and converge at the other. Look at where the four lines cross. The graph should look something like the figure on the next page.
- 4) Now determine if the prices named by these potential customers are anywhere near the range you thought. If not, you have *lots* of work to do to determine your potential customers' needs. Then look at the answers to the fifth question to see if there are features you could add to your product to increase its value. Refine your product description to reflect this.
- 5) If you need to, repeat this several times. Each time refine the product description until the price points that customers mention are high enough to yield your target margins. If they are consistently lower, then rethink your entire product or service.

- 6) Once you are sure customers will pay what you feel the product is worth, formalize your market research and do Steps 2) and 3) with enough potential customers to “smooth out” the curves.



Congratulations. You have just defined how the market perceives the value of your product. You now have a clear roadmap on how to price your product and maximize your revenue. Give it a try – you may be surprised by the results.

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Author's Biography

Mark Paul has over thirty years of executive level leadership experience - including 11 years at Global 500 companies (Ford and Northrop Corporations, where he built a 250-person business unit in two years) and over 20 years of business leadership consulting and interim executive work as Managing Partner at Synergy Consulting Group – an executive / business development consultancy. Synergy Consulting (www.synergy-usa.com) helps companies attract more customers, increasing their revenue, profitability and company value. Mark has raised capital and built and served on boards of directors and advisors for several companies.

To take your next step in your customer-attraction evolution, visit www.synergy-usa.com/newproducts.html to purchase the eBook *“How to Attract Significantly More Customers... in good times and bad.”*

Once you're ready, take the third step in your customer-attraction evolution – and learn what your “Customer-attraction Quotient” is – and how to improve it: www.synergy-usa.com/SCQ.html.

If you don't know how - or don't have time to make this happen, hire someone who has done this many times before. *Isn't your company worth it?*

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How to Attract More Customers... in good times & bad: *Book & Audio CD*

Do you have all the customers you need? Are you looking for cost-effective ways to attract more “A” customers? Have you tried trade shows, advertisements, newsletters, direct mail, PR, telesales, brochures, and dozens of other ways...without the success you would like? Are your sales & marketing efforts producing results / ROI you want? Learn how you can turbo-charge your marketing and sales efforts, without paying a fortune.

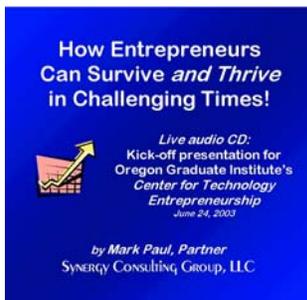
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- ✓ A comparison of your answers relative to all respondents.
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Report will be sent to you via email within just a few business days.

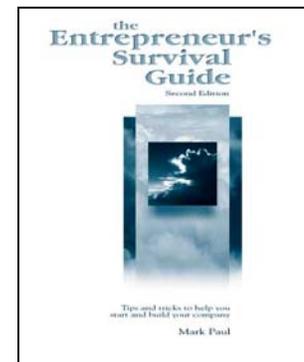


How Entrepreneurs can Survive & Thrive in Challenging Times. *Live Audio CD*

This CD includes real-world examples and encouragement for entrepreneurs (Mark Paul's kick-off presentation for Oregon Graduate Institute's Center for Technology Entrepreneurship.)

The Entrepreneur's Survival Guide: Book

Are looking or build your company? Do you want to increase revenue? Do you need to improve your marketing ROI? Are you trying to improve your leadership, decision-making, and personal effectiveness? If you want to build your company and avoid costly mistakes, buy The Entrepreneur's Survival Guide. Others say it best: “Ignore at your peril.” “Must read.” “Will save entrepreneurs time.” “Lightning in a bottle.” “I intend to apply it all.”



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Additional insights and value from leading authorities in their areas. Articles in the February, 2011 publication:

Are you Leaving Money on the Table?

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You may be stunting your corporate growth and company value due to your team's mispriced offerings. How can your team learn what the market will bear?

How to Align Information Technology (IT) with your Business Needs

Manoj Garg

You know IT is needed for business success. Yet, sometimes you have a nagging feeling that you are not getting value from your investments. This article discusses how to align IT with your business.

Maximizing Sales Velocity Despite Economic Headwinds

Bill Etheredge

Have you allowed the downturn to be a convenient excuse for recent financial performance? This article strips away the superficial convenience of financial downturns and shows how to *capitalize* on it.

Using HR to Boost Company Performance

Iris Sasaki

If you are interested in dramatically increasing your employees' and managers' performance, there is a little-known secret that will leverage your strengths – and those around you – to accomplish far more.

What Does a Lost Customer Cost You?

Patrick Wheeler

This article discusses that affect that losing customers has on your business, which could amount to 10% to 20% or more.

Clueless in the C-Suite

Tom Cox

CEOs and others in the C-Suite can find themselves in a bubble, an alternate reality, detached from what's really happening in the business. Figure out if you're in a bubble and how you can get out.

Maximizing the Value of Your Exit Strategy

Brent Freeman

Do you have an exit strategy for your company? Do you know what you need to do to get the maximum value for your company? This article will give you 6 ways to maximize your company's value.

Powerpoint Makes You Stupid

Dave Yewman

Master communicators tell stories and have one or two major points. They're smart enough to not try and communicate too much in a presentation. Are you?

How to Take Your Products International

Richard Biggs

Exporting isn't simply an add-on to your existing business. It should be part of an overall strategy to develop your business. This article takes a close look at the opportunities and threats that exporting can bring to your company.

The Secret to Building a Stronger Business

Alexander Stein

Your company's most valuable asset: a psychologically savvy chief executive. In this article, learn how to deploy yourself more effectively.

How to Minimize Project Risks

Mike Miles

Are your projects often late? Do unexpected events impact your project schedules? This article addresses how CEOs can create an environment for others to identify and manage project risks.

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