

the Entrepreneur's Survival Guide

How to Maximize Revenue (How to value-price your products)

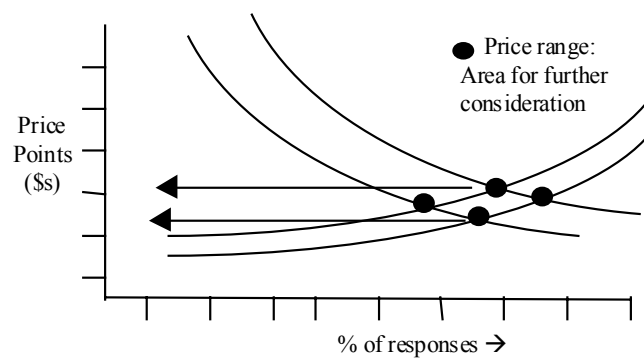
This chapter addresses *one* method of maximizing revenue through value pricing and focuses on how to price your products and services. How do you currently price products? Do you review your competitors' prices, talk to a few customers and ask what they would be willing to pay? Do you use a repeatable process? Do you determine the price *before* you develop a product?

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 product or service. This approach will *not* maximize your revenue!

The process described here is designed to help you determine your product's value *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 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 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.
- 4) Repeat this several times. Each time refine the product description until the price points customers mention are high enough to yield your target margins.

- 5) 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 50 to 100 actual, potential customers.
- 6) 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:



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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Mark Paul has more than twenty years of executive level leadership experience - including 11 years at Global 500 companies (Ford and Northrop Corporations, where he built a \$50 million business unit in two years) and 14 years of business leadership consulting as the president at Phoenix Management, Inc., and most recently as a partner at Synergy Consulting Group, LLC, an executive / business development consultancy. Synergy Consulting (www.synergy-usa.com) helps companies increase their revenue, profitability and company value. Mark has served on boards of directors and advisors for several companies.

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