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Competitive pricing examples

Competitive pricing is the process of selecting strategic price points to best take advantage of a product or service based market relative to competition. This pricing method is used more often by businesses selling similar products since services can vary from business to business, while the attributes of a product remain similar. This type of pricing strategy is generally used once a price for a product or service has reached a level of equilibrium, which occurs when a product has been on the market for a long time and there are many substitutes for the product. Competitive pricing is the process of selecting strategic price points to best take advantage of a product or service based market relative to competition. Competitive pricing is used more by businesses selling similar products, since services can vary from business to business, while the attributes of a product remain similar. Competitive pricing is generally used once a price for a product or service has reached a level of equilibrium. Businesses have three options when setting the price for a good or service: set it below the competition, at the competition, or above the competition. Above the competition pricing requires the business to create an environment that warrants the premium, such as generous payment terms or extra features. Rather than compete on price, the business must compete on quality if it hopes to charge a premium price. A business may set the price below the market and potentially take a loss if the business believes that the customer will purchase additional products from their business once the customer is exposed to the other offerings. The profitability of the other products can then subsidize the economic loss incurred on the below-market priced product. This is also known as a loss leader strategy. Lastly, a business can choose to charge the same price as its competitors or take the prevailing market price as given. Despite selling an equivalent product at an equivalent price, the business may still attempt to differentiate itself through marketing. For a business to charge an amount above that of the competition, the business must differentiate the product from those created by competitors. For example, Apple employs the strategy of focusing on the creation of high-end products and ensuring the consumer market sees its products as unique or innovative. This strategy requires not only improving the product or service itself but making sure customers are aware of the differences that justify the premium pricing, through marketing and branding. A loss leader is a good or service being offered at a notable discount, at times resulting in a loss if the products are sold below cost. The technique looks to increase traffic to the business based on the low price of the aforementioned product. Once the potential customer enters the store environment, shifting to the role of customer once the decision to purchase the loss leader is made, the hope is to attract them to other store products that generate a profit. Not only can this attract new customers to a store, but it can also help a business move inventory that has become stagnant. At times, loss leader prices cannot be officially published as a minimum advertised price has been set by the manufacturer. The practice is also forbidden in certain states. When a company is unable to anticipate competitor price changes or is not equipped to make corresponding changes in a timely fashion, a retailer may offer to match advertised competitor prices. This allows the retailer to maintain a competitive price point for those who become aware of the competitor's offer without having to officially change the price within the retailer's point of sale system. For example, in November 2014, Amazon projected price changes to approximately 80 million items in preparation for the holiday season. Other retailers, including Walmart and Best Buy, announced a price-matching program. This allowed customers of Walmart or Best Buy to receive a product at the lower price without risking customers taking their business to Amazon solely for pricing reasons. Competitive pricing is the process of selecting strategic price points to best take advantage of a product or service based market relative to competition. This pricing method is used more often by businesses selling similar products since services can vary from business to business, while the attributes of a product remain similar. 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This allowed customers of Walmart or Best Buy to receive a product at the lower price without risking customers taking their business to Amazon solely for pricing reasons. Competitive pricing is a critical driver of profitability, yet many companies struggle to optimize their pricing strategies. According to McKinsey & Company report, up to 30% of pricing decisions made by companies every year fail to deliver the best price, highlighting the significant opportunity for improvement. By analyzing competitors' pricing moves, companies can gain insights into customer preferences, market trends, and opportunities for differentiation. However, implementing a robust competitive pricing strategy requires a systematic approach. This comprehensive, step-by-step guide provides a structured framework for implementing a competitive pricing strategy, drawing on extensive research and real-world examples. Whether you are a pricing professional, business leader, or general manager, this guide will provide valuable insights and practical tools to enhance your pricing capabilities and drive profitable growth. What is Competitive Pricing? Competitive pricing, also known as competitor-based pricing, is a pricing method where a firm sets prices in line with rival businesses. Rather than focusing on production and overhead costs, competitive pricing prioritizes the going market rate that consumers are willing to pay. The aim is to lure customers away from competitors by offering better value. Competitive pricing is frequently employed for similar or directly comparable goods and services. Gas stations are a prime example - they typically charge prices very close to what nearby stations are charging to avoid losing customers. Grocery and department stores also engage in competitive pricing for staples and standardized products. How Does Competitive Pricing Work? To implement competitive pricing, a company first researches the prices that competitors charge for a comparable product or service. It then uses those prices as a benchmark for setting its own prices. The business may choose to set prices lower, equal to, or even slightly higher than competitors based on its unique value proposition and brand positioning. For example, if competitors charge \$100 for a product, a company could set its price at: \$90 to attract price-sensitive customers \$100 to avoid a price war \$110 if it offers premium features, better service, or a strong brand name Competitive Pricing Strategies There are three main competitive pricing strategies: Price Matching: Setting prices at parity with competitors Discount Pricing: Pricing below competitors to win market share Premium Pricing: Charging higher prices than rivals due to a superior offering Price matching is a defensive tactic to retain customers who might otherwise defect to a competitor. Discount pricing is an aggressive strategy to poach customers from competitors and grow market share. Premium pricing capitalizes on strong brand equity, focusing on customers willing to pay more for perceived quality. Examples of Competitive Pricing Online Retailers: Amazon, Walmart, Target, and Best Buy constantly monitor and match each other's prices to avoid losing sales. They use algorithmic pricing tools to automatically adjust prices on a real-time basis. Streaming Services: Netflix, Hulu, and Disney+ offer similar plans at comparable monthly prices because consumers view the services as largely interchangeable. Airlines: Airlines continuously monitor competitors' fares and dynamically adjust their own prices to stay competitive on each route. Most charge similar base fares and then use variable pricing for extras like seat selection and baggage. Ride-Sharing: Uber and Lyft employ surge pricing algorithms that respond in real-time to supply and demand but always keep prices competitive with each other and traditional taxis. Case Study Example: A cloud-based supply chain risk management platform partnered with Netscribes to optimize their pricing models and boost profitability. Netscribes conducted qualitative research to gather competitor pricing data and developed a competitive matrix to inform the client's pricing strategies. By leveraging Netscribes' competitive pricing analysis, the platform gained valuable insights into customer preferences, market trends, and differentiation opportunities. This enabled them to optimize their pricing models, striking a balance between profitability and competitiveness while focusing on customer value. As a result of this partnership, the client was able to develop better pricing strategies for its products. Benefits of Competitive Pricing Attracts New Customers: Offering a lower price than competitors can persuade their customers to switch. Boosts Sales: Undercutting competitors' prices can drive a higher volume of unit sales. Increases Market Share: Consistently pricing below rivals can expand customer base and market share over time. Quick and Easy: Competitive pricing is simpler to execute than cost-plus or value-based pricing, which require extensive internal research. Disadvantages of Competitive Pricing Lower Profit Margins: Aggressive discounting can erode margins if prices are reduced more than costs. Price Wars: If competitors repeatedly undercut each other, it can trigger a damaging race to the bottom and can reduce profitability. Lack of Differentiation: Focusing only on price neglects other marketing mix elements like product, place, and promotion. If customers don't perceive differences beyond price, offerings can become commoditized. Misses Non-Price Sensitive Customers: Some segments prioritize quality, service, and brand over price. Competitive pricing may fail to attract these less elastic customers. Is Competitive Pricing Right For Your Business? Competitive pricing is most suitable when: Selling a commodity or standardized product Customers are highly price sensitive Having economies of scale to maintain profits at lower prices Needing to quickly liquidate excess or perishable inventory 2. Competitive pricing is less appropriate if: Offering a highly differentiated product or service Target customers prioritize quality and service over price Lacking scale efficiencies to profitably sustain discounting Brand positioning is premium rather than value-oriented Competitive Pricing vs Value-Based Pricing Value-based pricing is a customer-centric alternative to competitive pricing. It sets prices based on the perceived value a product or service creates for customers. Value-based pricing involves extensive market research to uncover the worth target customers assign to an offering and their willingness to pay. The company then aligns product features and prices to capture a portion of that value. Value-based pricing often supports higher margins than competitive pricing. It suits differentiated products serving less price-sensitive segments. Apple excels at value-based pricing for its innovative tech products. However, it demands deep customer insights. Step-by-Step Guide: Implementing a Competitive Pricing Strategy Implementing a competitive pricing strategy requires a systematic approach. Here's a detailed, step-by-step guide: 1. Identify Your Top Competitors Begin by listing your direct and indirect competitors. Prioritize them based on market share, target customer overlap, and product similarity. Focus on the top 3-5 competitors for in-depth analysis 2. Research Competitors' Pricing Across Channels Over Time Gather your competitors' current and historical prices for comparable products. Collect pricing data from their websites, physical stores, ads, and price comparison sites. Take note of any price variations across channels (online vs. offline) or geographies. Identify any patterns in competitors' price changes, such as seasonal discounts or promotional cycles. Gather competitors' current and historical prices for comparable products Collect pricing data from competitors' websites, physical stores, ads, and price comparison sites Note any price variations across channels (online vs. offline) or geographies Identify any patterns in competitors' price changes (e.g., seasonal discounts, promotional cycles) 3. Analyze Competitors' Overall Positioning and Pricing Objectives Evaluate your competitors' brand positioning and target customer segments. Infer their pricing objectives based on their positioning and pricing patterns. Everyday low pricing (EDLP) suggests a focus on price-sensitive customers and market share, while high-low pricing (regular prices punctuated by frequent promotions) suggests a focus on deal-seeking customers and price discrimination. Premium pricing suggests a focus on quality, service, or brand-conscious customers. Assess the role of price in competitors' overall marketing mix relative to product, place, and promotion. Evaluate competitors' brand positioning and target customer segments Infer competitors' pricing objectives based on their positioning and pricing patterns Assess the role of price in competitors' overall marketing mix (relative to product, place, and promotion) 4. Determine Your Own Positioning and Pricing Objectives Define your target customer segments and their price sensitivity Articulate your desired brand positioning and value proposition Set clear pricing objectives based on your positioning and financial goals, such as maximizing market share, maximizing profit margins, reinforcing premium brand image, or rapidly liquidating inventory. Ensure alignment between pricing objectives and overall business strategy. Define your target customer segments and their price sensitivity Articulate your desired brand positioning and value proposition Set clear pricing objectives based on your positioning and financial goals Ensure alignment between pricing objectives and overall business strategy 5. Set Prices Relative to Competitors To achieve market share leadership, align your prices with or marginally undercut your main rivals. For profit margin leadership, maintain prices at or moderately above your principal competitors. When aiming for a premium market position, establish prices substantially higher than your competitors. If your objective is to quickly sell off inventory, temporarily set prices markedly lower than your competitors. Test different price points and measure the impact on sales, profits, and market share. Set prices relative to competitors based on your objectives (market share, profit margin, premium positioning, or inventory liquidation) Test different price points and measure impact on sales, profits, and market share 6. Establish a Process to Regularly Monitor Competitors' Prices Assign responsibility for ongoing price monitoring to a specific team or individual. Leverage price monitoring software to automatically track competitors' online prices in real-time. Conduct regular manual checks of competitors' offline prices. Collect and organize competitive pricing data in a centralized database or dashboard. Analyze competitor price changes for patterns, trends, and potential triggers. Alert relevant stakeholders of significant competitor price moves. Assign responsibility for ongoing price monitoring to a specific team or individual Leverage price monitoring software to automatically track competitors' online prices in real-time Conduct regular manual checks of competitors' offline prices Collect and organize competitive pricing data in a centralized database or dashboard Analyze competitor price changes for patterns, trends, and potential triggers Alert relevant stakeholders of significant competitor price moves 7. Determine Rules and Thresholds for Dynamic Price Adjustments Specify conditions under which you will match or beat competitors' prices. Decide if you will always aim to be cheapest, or only within a certain percentage. Determine if you will price match proactively or only reactively when customers request it, and if you will price match all competitors or only certain key rivals. Set thresholds for when to raise your own prices in response to competitor price increases Program pricing algorithms to automatically adjust prices based on predefined rules Empower frontline sales reps to negotiate prices within approved ranges 8. Measure Results and Adapt Your Pricing Strategy Track key performance metrics like sales volume, revenue, profit margins, and market share. Assess the impact of specific price changes on these metrics over different time periods. Gather qualitative feedback from customers and sales teams on perceptions of your pricing relative to competitors. Be prepared to adapt your pricing strategy if results are not meeting objectives: If sales volume or market share is below target, consider selectively lowering prices. If profit margins are below target, consider selectively raising prices or reducing costs. If premium positioning is eroding, consider increasing prices and investing in differentiation. Continuously refine your pricing strategy through iterative experimentation and learning. Track key performance metrics like sales volume, revenue, profit margins, and market share Assess the impact of specific price changes on these metrics over different time periods Gather qualitative feedback from customers and sales teams on perceptions of your pricing relative to competitors Be prepared to adapt your pricing strategy if results are not meeting objectives Continuously refine your pricing strategy through iterative experimentation and learning Implementing an effective competitive pricing strategy is not a one-time event but an ongoing process. It requires continuous monitoring, analysis, and adjustment to stay ahead in a dynamic marketplace. By following this step-by-step guide and embedding competitive pricing discipline into your organization, you can optimize your prices to achieve your strategic objectives. Conclusion Implementing a competitive pricing strategy is a powerful way for companies to optimize their pricing decisions, drive profitability, and gain a competitive edge. By systematically monitoring and analyzing competitors' pricing moves, companies can gain valuable insights into customer preferences, market trends, and opportunities for differentiation. Effective competitive pricing requires a culture of pricing excellence, investment in the right tools and capabilities, and a continuous process of refinement. By following the step-by-step framework outlined in this guide, companies can develop a robust competitive pricing strategy that strikes the right balance between profitability and competitiveness while focusing on customer value. As the business landscape continues to evolve, the importance of effective pricing will only continue to grow. Companies that embrace competitive pricing as a strategic priority and embed it into their organizational DNA will be well-positioned to unlock the full potential of their pricing power and thrive in an increasingly dynamic market environment. Frequently Asked Questions How often should I review competitors' prices? At least monthly, but more frequently in dynamic markets. Automate monitoring if possible. Should I always aim to have the lowest price? Not necessarily. It depends on your objectives and positioning. Sometimes parity or premium pricing is optimal. What if a competitor drastically undercuts my price? Assess if it's a short-term tactic or long-term strategy. React tactically, but avoid a strategic price war. Differentiate on value. How do I balance competitive pricing with profitability? Aim to maintain target profit margins. Only strategically discount if you can reduce costs or expect to recoup margins in the long run through higher volume or customer lifetime value.