Competing on Price

There was a time when the conventional wisdom dictated that price was the most important competitive factor and that the Company that could deliver the lowest price would win the customer. This proved to be not entirely correct, as, in fact, it is value consumers seek, which is different from price on a number of levels. Nonetheless, it cannot be denied that there are substantial numbers of consumers that are price driven, and are willing to substitute the other aspects that constitute value (quality, service, and convenience) in order to pay less. These consumers have fewer resources at their disposal, and while they may not always like it, for them, price is the some determining factor when considering a purchase.

So how do you compete on price?

Your first step is to make the decision that price is the basis upon which you elect to compete. This is not an easy decision and should not be made lightly. There are many easier ways to compete, yet most are not as rewarding. That is, if you compete on price and you do it well. The most important thing to remember, and the point you need to be most cautious of is, if you decide you are going to compete on price you must be certain that this decision drives every other decision you make. In other words, once you start competing on price, everything else you do is in relation to that one decision.

Tudog has 6 more guidelines that will help you in executing your decision profitably. They are:

1. Be Consistent

Keep in mind how jaded we all are as consumers. We are conditioned to go after the lowest price by retailers that can't make up their minds where they want to be on the pricing scale. Instead of lowering prices they offer rebates, or they hold sales. Meanwhile now consumers simply wait for the sale to come around. These ambiguous pricing tactics are not competing on price, they are matching consumer demand. The "everyday low price" concept requires that you provide the lowest available price every day, and not during sales season.

2. Deliver on Value

The idea that you are selling at a low cost does not alleviate you – completely – of the need to delivery on value. Value is a proportionate concept. It simply means that you are getting what you pay for. As prices rise beyond the core value of a product, additional elements, like service, quality and convenience, were introduced into the equation. These enhanced the perceived value of the product and served to justify a higher price. Certainly a lower price reduces customer expectation, but you need to be certain that you are not assuming that your prices are so low that you can't find yourself at a point where you are offering negative value – and wondering why no one is buying from you. People are not coming to you because you are selling bad products at low prices. They are coming to you because you are selling things they want or need at the lowest price. Herein lies the value equation, and you need to be certain to preserve it.

3. Know Your Costs

By selling at discounted prices you do not want to end up in the fiscally disastrous situation where you are losing money on each sale and trying to make it up in volume. You need to know your costs should be, what they are, and where you need them to be. Then take the necessary steps to get your costs down and maintain them as low as possible. You do this by always keeping track of not only what it is costing, but what you need it to cost.

4. Keep it Simple

While you need to deliver on value you also are able to reduce the amenities because the consumer expectations are less when you are selling things at lower prices. You need to be certain you have a good understanding of what you can cut and what you need to remain at high standards. For example, a restaurant offering lower cost food may be able to compromise on atmosphere and full-service, but most likely would not want to compromise on portion size, and certainly not on cleanliness.

5. Reduce Your Operations

Some businesses believe that they can keep their costs down by doing everything by themselves. In most cases this is false economics. The costs you have to getting it done do not reflect any economies of scale a dedicated service might have, enabling them to do it for less. Deduct the time it takes and the distraction it causes to your genuine focus, then you may be paying a lot more to do it in house than you think. If you reduce your operations and subcontract everything you do not need to be focused on, you will probably lower your costs.

6. Make Price Your Sole Determining Factor

If you are going to be selling low you have to buy low and keep your costs down. This means you have to make sure your business decisions are in line with the cost structure you need to be profitable. You not only have to buy low and keep a well oiled operational machine, you also need to sell low and make sure that you are picking your customers correctly. You need to avoid costly marketing tactics like advertising, but you need to make sure you create the right buzz to get word of mouth going. In every decision you make you need to have the fact that you are selling based on low price prominent in your thinking.

Selling on price alone is not easy and it is not always rewarding. It is a legitimate market position if you can sustain it. Just make sure you are true to your costs and can genuinely deliver on low price. If so, you may find yourself capturing the portion of the market for which price is of supreme importance.