Pricing Considerations for the U.S. Market

The pricing dilemma hits every company as they prepare for entry into the U.S. market. The market is highly competitive, with an abundance of players. While pricing strategy is only one element of your company's overall strategic plan, its importance should not be underestimated. The pricing strategy you select now will not only influence your market entry phase, but will serve to position you within the market in terms of customer perception, value perception and brand equity.

As consumers we respond to price everyday, making buying decisions based not only on what products cost, but also what our perceived value of those products are. Sometimes we make a purchase based on price alone (buying the least expensive available) and sometimes we make a more complex buying decision that leads us to pay a bit more for what we believe is better quality, better service, or better reputation. The lesson to be learned is pricing is more than cost based or market related. It is a mixture of these critical elements, what the market will receive, and where you wish to place your company within the spectrum.

An important thing to remember, particularly for younger companies, is that lowering your price in order to rescue a sale going south can lead to a permanent erosion of your pricing. It is tempting for new companies to try to hit the market with no genuine pricing strategy and allow the market to determine the price by selling for whatever the buyers will bear. The error in this thinking is that, while it may provide for some initial clients, it does not provide the company with a position within the market, leading to lost competitive advantage and the danger of being pigeonholed into a low cost solution.

Setting Pricing

Before you establish your pricing you should talk with prospective customers about what sort of bids they would respond favorably to. Try to determine how pricing needs to be structured and whether or not elements such as service and upgrades can be added on or need to be included. The days of the low cost entry and high cost add-ons are over and most customers now want to see what the final costs will be, not the initial installation and license. So talk to the kinds of companies you hope to be selling to and see what they are willing to spend for the kinds of solutions and benefits you deliver.

Another crucial step in developing your pricing strategy is to engage in a competitive analysis, looking closely at what your competitors are charging and how their pricing policy is positioning them in the market, affecting their sales, and supporting their brand.

Another important aspect to pay attention to is how the pricing is structured. You do not want to enter the market with pricing structures that radically divert from the normal structures being proposed currently. Sure you can offer some variations, such as including service or upgrades as an introductory offer, but you should not come in with entirely new pricing models that leave your customers with no real basis upon which to measure your offer against that of your competitors.

Another thing to keep in mind regarding pricing is that generally in high technology prices tend to go down over time. In fact your very entry into the market, where you will be adding to the competitive environment, may cause a drop in prices, as competitors respond to your arrival. You need to try measure the effects of your appearance on the market and try to price in accordance with what you believe those effects will be.

Pricing Options

There are three general pricing tactics you can consider, each with their own benefits and each with their own risks. They are:

1. Premium Pricing – entering the market at existing competitor's prices (or greater) based on the delivery of superior product, support, manuals, support, and service. This pricing strategy leaves you competing with large companies, and narrows your market to those large companies that can afford your prices.
2. Market Value – placing your pricing slightly below the premium prices, both in order to anticipate a decline in pricing your entry may inspire, as well as to avail yourself to a broader market. This strategy might also keep you out of direct competition with some of the more powerful companies in your sector.
3. Value Pricing – charging significantly lower than competitors in an effort to gain market share rapidly. This strategy will mark your brand as a value brand, leaving you little room to raise prices later.

Pricing your products is part of a broader market penetration plan, but a central component that should not be left to market forces to determine. You need to create your pricing strategy through a process of analysis and consideration of a variety of market elements. By doing this you will be able to control the course of your market entry, neutralize or effectively respond to competitor moves, and position your company for present and future growth. And that creates value. And that is what it's all about.