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Mature Industries - Pricing as a Competitive Strategy

Many companies miss their transition point from "growth" to "maturity." Business owners begin to recognize something is wrong when the customer or prospect begins acting differently - doing business becomes all about price. Therefore, the mature industry member can be recognized by their customer's buying habits - they are only concerned about price. Another tip is when your competitors are slashing prices trying to steal your customers. In essence, the Mature Industry is defined by the loss or absence of a competitive advantage - when price is the customer's sole determining factor and "price wars" are common.

Many mature businesses claim their service is still a competitive advantage. Here is the acid test. If new customers are not lined up at the door because of your service "value", then you may be the only one who sees your service as having value.

There is a widespread misunderstanding amongst business owners and managers relative to price as a marketing strategy. Price cutting, as a reactive measure or as a strategy to grow market share is not a strategy. It is a dangerous and short-lived tactic that is generally destructive to the whole market. Price cutting can be easily matched by competitors and after several months the whole market is back where it began but everybody's' margins have eroded.

A true price strategy turns the customer's focus away from cost and towards value based on a perceived benefit that makes price comparisons impossible. When the perceived value between options is obvious, it makes price comparisons irrelevant.

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## Step One: Segment Your Buyers

Most companies tend to regard their customers as a fairly homogeneous group as if they all do business with you for the same reason. When asked why their customers buy from them, business owners tend to generalize about price, quality, location, service, etc. They are, in essence, saying it is the whole value-mix that the customer likes, otherwise, why would they buy from us? While this owner may be correct, his failure to segment customers by "most valuable" aspects could lead to disastrous marketing decisions.

There are four main buyer motivations:

- \* Price Buyers
- \* Value Buyers
- \* Relationship Buyers
- \* Convenience Buyers

Suppose a coffee shop reduces its prices on coffee as a means of competing with a major franchise down the block. After three weeks, the owner notices a slight increase in number of cups but the increase isn't sufficient to cover the price reduction. In other words, he lost money and now is locked into the reduced price for a while. Later, the coffee shop owner has his daughter construct a survey to determine why customers choose this coffee shop over the franchise down the block. Here is what he finds out:

- \* 65% Convenience because it is located on the inbound side of the commuter route
- \* 20% Quality of the food and pastries
- \* 10% Friendly atmosphere - people know me by name
- \* 5% Environmental - use of Paper Vs Styrofoam Cups

Here is an example of a business owner assuming that price was the key factor behind buyer motivation. He missed the unique competitive advantages he

enjoyed. Had the owner known this information, he may have increased the price of his coffee rather than reduce it.

Customer surveys can be extremely useful in segmenting your buyer base motivations. The survey's structure, length and quality of questions are the key. Sometimes, a reward-based survey may increase the response rate.

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Pricing within the Marketing Mix

When a company begins to "bargain" with price as a means to appease the customer, the entire marketing plan of the company is sabotaged. There is a mismatch amongst price, advertising and the value perception by the market. Therefore, the marketing strategy should support the pricing strategy and vice versa. Determining which type of pricing strategy is best will involve detailed analysis of your market and may take some professional assistance but will significantly improve the company's revenue and profitability. It does so by eliminating "price" as the sole means of comparing product/service alternatives. In short, it creates a new competitive advantage for your company.

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#### POSITION FOR TRANSITION

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and create extraordinary value. Best of all, we only work with lower mid-market companies and our fees reflect our confidence. Ninety percent or more of our fees are contingent upon the successful transition of your company - even if that sale is years away.

Competitive advantage is the key to revitalizing your company's growth and profitability. Call me if you'd like a free consult and to learn how BizMACH can grow your company and increase its value.

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