

JULY 2019

SMART PRICING TACTICS

TO WIN IN COMPETITIVE MARKETS

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Pricing Software for E-Commerce



PRICING MATTERS

Pricing is the most important factor influencing purchasing decision for online shoppers. According to BigCommerce research, **87%** of respondents stated this.

E-commerce companies are competing to attract more and more customers but the difference here comes from the approach they take. Some make decisions based on a systematic approach while others do that based on random insights. We're going to give you six tips on how you can do pricing correctly by concentrating on certain areas in your e-commerce business.

METHODOLOGY

We've gathered these tips by talking to industry experts, our customers and question trends to shed light on how any e-commerce business can outperform their rivals. This guide will help you avoid continuously undercutting your prices, giving away profit margins, and getting into an endless pricing war.

TIP 1

Start looking into your business costs

Focusing on costs is a necessary action for a healthy e-commerce business to operate but obsessing about it wouldn't bring any good to move forward. To compete in this industry, you have to maintain costs at an acceptable level and then open enough room for your pricing team to experiment with their pricing strategies. That buffer will help them know when they can decrease or increase prices in certain products at a certain level. Without it, you must ask yourself if you can compete otherwise.

Please note that cost-reduction can also be optimized further to increase your level of competitiveness but the techniques achieving that vary for each company.

Fixed overhead costs

- rent
- mortgage payments
- some utilities
- insurance
- property taxes
- depreciation of assets
- salaries
- government fees

Variable overhead costs

- shipping
- packaging
- legal expenses
- materials
- office supplies
- equipment maintenance
- advertising
- third-party vendors
- marketplaces
- apps/software

Semi-variable overhead

- some utilities
- vehicle usage
- hourly wages with overtime
- salespeople's salaries and commissions.

TIP 2

Establish a change detection mechanism

Offering the lowest prices might be your strategy and you might make a lot of sales with it. But if you don't know the numerical difference between your closest rival, you're probably leaving a lot of money on the table. That's why it's critical to know who's competing for the 2nd cheapest position. Creating such a defense system will not be as difficult than it might sound and with a price monitoring software, it is easily automated.

Now, you can increase your prices while still being the most competitive. This might not seem to affect the number of units sold but when you hit the balance sheets you're going to see an increase in profit margins.

"A 1% increase in price leads to an 11% increase in profits on average according to Harvard Business Review. So, for every 1% less you price your offerings, you're leaving an extra 11% of the profit on the table."

TIP 3

Do your research on making better deals

Manufacturers, brands, and suppliers give retailers discounts on different product lines and brands. This fact is known by most of the players and has a grand effect on pricing strategies. When you observe brand and category level products for competing companies, having an in-depth research about this will give you leverage on negotiating for the next batch.

To study this properly, you need to watch certain products and combine them under specific categories or brands to calculate their overall pricing history and see how low they can go in certain times. With time, you'll have a pretty good idea on what prices they are getting from certain suppliers and get a stronger hand.

After having a strong case, you'll be an expert on detecting which rivals' products are leading and which are following. Now, you know how you can plan and get ahead in both your pricing and purchasing strategy. You'll multiply your pricing power and increase your elasticity.

"This technique is very effective in not only getting a good price but also in making your suppliers realize that you are a serious buyer who knows what he is doing and they should make better deals with you."

TIP 4

Analyze historical pricing data



Monitoring, updating, and storing your competitors' pricing movements takes a lot of time and resources. Save that time today with Prisync!

Having an eye on your rivals' historical pricing changes will help you predict their next moves. And when you know how they act and react in certain situations, you control the flow of pricing fluctuations. In other words, you're always two steps ahead of them.

You'll have the insights to look for certain moves in seasonal campaigns and be prepared to capture sales opportunities. Because these trends are a very good way to both getting new customers and retaining the existing ones.

TIP 5

Know when your competitors are out-of-stock



The knowledge of out-of-stock items not only helps you gain fatter profits but it helps you acquire new customers for your business.

- What happens when a product has a certain level of demand but supply is getting short? Let's assume the product isn't getting discontinued or EOT for this scenario. Wouldn't it be great if you're one of the few sellers left in the arena and pricing is not the only concern of consumers anymore? Scarcity is a very powerful driving force and customers are willing to pay more to the same product even if they knew it was cheaper. Of course, this only works if demand doesn't change.
- A smart business owner will know how to seize this occasion. Owners can gain huge profits out of this without abusing their power. For this to happen you should have bots checking your competitors' product web pages and pay from tens to thousands of dollars to computational power depending on the scale of this recurring task. Or dump this to a competitive intelligence software.

TIP 6

Get better with data

Having a bunch of raw data doesn't mean anything to anybody unless it is organized into a meaningful context. If you present your purchasing department on how unit costs are affecting your business, you'll be able to achieve better team chemistry and margins which they will then negotiate for better prices much more confidently. That information can also be simultaneously shared with your accounting as they'll be quite glad for updating and optimizing business costs. Similarly, you can do this with the marketing team to show how advertising campaigns and promotions might get better.

The bottom line is, as the person responsible for pricing has organized data and the permission to share it within, the whole organization will align to a better future for the growth of the company.

TAKEAWAYS

- Knowing the costs of an e-commerce business are essential for making money.
- Having a monitoring routine of your competitors sets the baseline of being totally aware of your market.
- Every great action and negotiation has great research behind it. Give more weight into research and you'll get better deals in the future.
- Doing a historical pricing change analysis is key for determining most of the strategies of your competitors.
- Knowing when your competitors are out-of-stock is an invaluable opportunity to make higher profits.
- You must get organized data, distribute it openly, and improve your team relationships to grow your company, especially in critical decisions such as pricing.



IT'S YOUR TURN!

Pricing is a multidimensional aspect of e-commerce. Implementation of the above-mentioned tactics will surely help any e-commerce business to make better deals, outperform their rivals, and stand strong in the highly competitive market of the e-commerce industry.

Get ahead in the game with Prisync's price optimization software by signing up for a free 14-day trial at <https://prisync.com/register>.