

Book Review - Pricing for Profit: How to develop a powerful pricing strategy for your business

Author: Peter Hill

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Reviewed by Prof Abhijeet Kelkar

The author, Peter Hill, of the book "Pricing for Profit: How to develop a powerful pricing strategy for your business" is from the field of Finance having an experience of more than 30 years. Being a qualified professional with dual degrees of C.A. and C.P.A., he brings with him a versatile experience in the fields of Auditing, Business Consultancy and Business Strategy. The book brings with it the insight of different perspectives of pricing with the main focus on profitability. The sixteen chapters have been divided with the first five chapters covering the principles and the basics of pricing whereas from chapter six onwards, specific issues to the individual areas of pricing are handled. Author has worked in various organizations right from those employing 100 to 10000 employees.

The book states that 80% of the businesses do not see the fourth year of their journey. The author emphasizes that this failure can be reduced by working on the pricing scientifically. Stiff competitions, recessionary trends, pressures to perform, increased costs and contracted markets are the common trends in almost all the sectors of the industry. Most of the companies opt for cost reduction techniques in order to keep the profitability intact, if not at least increased. This option remains the lender of the last resort. However, the author offers a remedy to look at pricing as the major contributor towards organizations failures turning into the success.

Author clears initially itself that most of the organizations opt for the following factors on and / or mode, when it comes to the profitability.

a) Reduce Costs

b) Increase Turnover

However, most of the companies do not think of the third possible option, 'Increase Productivity'

Increase Turnover could be perceived as simple to understand but how much to be increased remains to be the real crux of the problem. The best five policies in which this could be achieved remain as:

- Increase the number of customers
- Increase the frequency of the transaction from the customers
- Increase the average value of each transaction
- Increase the price charged
- Increase the efficiency of the business with the help of factors like people productivity and reduction in overheads.

Pricing has got a direct impact on the profitability and that is the reason it is too difficult to handle this issue. This is both a psychological as well as business problem to increase the prices for added margins. What is important is not what you increase (Price) but how you increase it. This entirely comprises of what you actually charge at the moment, increasing the headline price with added value and ensuring that the frontline people understand the profit equation.

The book brings the attention of the reader to the most important point that the fundamental flaw in the system to it set the price by taking the cost price and adding certain percentage on this. Either the technique applied is cost plus certain percentage on it or in different ways like undercutting the competitors by setting the prices below them, keeping the same pricing technique like last year by adding a minor percentage in it or simply guesswork with regard to the current year's pricing. All the methods have got their inherent limitations. Only pricing strategy that works remains to be the 'value to each customer'.

The Author deliberates the value versus cost concept as it is the win-win situation of buyer and seller before the transaction takes place. Price is the perceived consideration of the seller for the goods / services whereas the value is the perceived returns for the price by buyer. It is a vital thing to convince the buyer to buy at a higher price. Author keeps

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the focus on the procedure before getting the result. Most of the organizations attempt to increase the price and fail miserably. Organizations fail to understand the simple fact that a part of growing of the business is to increase the value of each sale and pricing can be an effective tool for the same.

Most of the organizations act keeping in mind only the final outcome and fail miserably. Price increase remains to be the final outcome but it will come automatically, as quoted by the author. The procedure to be followed will be selling a greater volume of the items to the customer, selling the complementary items to the customer at the same time, persuading the customer to buy a higher specification product finally followed by the charging more for the same product.

There are several action points given at the end of every chapter. These action points remind the reader of several learnings from the specific chapter and broaden the orbit of the reader in terms of pricing strategies, profit maximization, sales maximization and so on.

A few thoughts in the form of gist of the book expressed by the author which otherwise, are not considered that commonly by the organizations remain as under:

Always apply those ideas which seem to be difficult and little different, they do give guaranteed results

Improving profitability is not hard at all

Not always customers want the things at low prices

There is no end to the profitability as the upper end of the profit margin is unlimited and could be anything

Discount is not always the medicine to attract the customer

It is not the quantity but the time of pricing that matters in profitability

Most of the people running the business are untrained for that role

Complete picture of the profit calculation and overall finance should be shown to the Sales and Marketing team

Clearly categorize your customers on the basis of those who give turnover, those who give profit, those who give their brand name and those who simply add a number to the names.

Do not give anything away for free

To the maximum possible extent, ask the customers for their permission to increase the prices

Develop a value strategy for price disagreements by the customers

Pricing is done on diligence and not on actual price

Author gives insight in the form of practical advice that select the logical and feasible two / three ideas and simply go ahead with them. Do not waste much time on the brainstorming, meetings and so called analysis of the situation. Author calls it as 'Paralysis of Analysis'.

In general, the book is worth reading definitely especially by the Micro, Small and Medium Scale Entrepreneurs even though the same is applicable to the large corporate houses.

Observed limitations in reviewer's opinion remain as under:

Author has not specified all the names of the companies in which he has successfully implemented his thought process and got the results

Result of the pricing strategies on Indian front can't be guaranteed as there are certain issues which are nation specific and not business specific.