



TenStep Supplemental Paper

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Consider Pricing

SMEs are often forced to compete on price in order to contend with the bigger players in the market. When prices are lowered, there is a squeeze on the margins, and the enterprise will find it difficult to allocate resources for other organizational and marketing needs.

What can a revision in prices achieve?

Pricing strategies are used for one of the following reasons:

- Increasing sales – This is done on the assumption that a reduction in prices will trigger an increase in volume, and lower margins can be offset by economies of scale. This does not happen in all cases, and economies of scale can be elusive.
- Increasing profit margins - This is done on the assumption that an increase in prices will lead to bigger margins and subsequently to profits. The entrepreneur should ensure both that he is not over-priced when compared to competitors and that his value proposition is better than the competition.
- To beat a competitor's price - Doing this normally triggers a price war or is in reaction to a price war triggered by a competitor. Because of their size, small enterprises are unable sustain the battle for long.

Besides strategic reasons, a change in prices can also be used to:

- Get rid of surplus stocks (lower the prices to the extent that it covers costs).
- Promote; lowering prices can be a good way to attract the attention of the consumer.

An entrepreneur has to remember that any change in prices, whether an upward or downward revision, will have an impact on customer perceptions.