

3 Reasons to Look at Pricing Earlier Rather than Later_ Solocast (E65_Live with the Pricing Lady)

[00:00:00]Janene: Hello, everyone. And welcome to Live with the Pricing Lady. I am Janene Liston your hostess. Today's show is all about the three reasons to look at pricing earlier, rather than later. This show is all about helping you build a sustainably profitable business. I'm Janene. I work with small business owners to help them build the right pricing strategies so they can more confidently charged for the value they deliver and build sustainably profitable businesses.

Hello everyone, and welcome to the show.

Let's go ahead and get started with today's episode. I work with a lot of new businesses. Startups or small businesses who are in the very early stages of getting their business started. And a lot of times they will come to me and ask for information about pricing and then in the same breath, tell me, well, you know, I'm not really ready to talk pricing yet.

I need to do this first and that first, and this hurts that first. And that's [00:01:00] what led me in part to wanting to do this episode. Now, this doesn't only apply to new businesses. It also applies when you're bringing new offers or products into the marketplace.

Some, especially products, have a very long lead time. When you're in the development phase or even research phase in some businesses. If you think like pharmaceuticals, it can be 10 or 20 years of R & D, research and development, before they're even getting to something that resembles a product that they can put out there in the market. In other businesses like industrial manufacturers, it may be, a year or two or maybe three turnaround time.

When you're doing research and development, you should also be thinking about, and at least having a conversation occasionally about pricing relatively early on in the process. I'm going to make clear upfront that this isn't just about new businesses. This is also when you're bringing new things to the marketplace.

Let's take a look now at [00:02:00] the three reasons that you want to be pricing earlier rather than later. The first reason is that it will help you test out your business model. When you're putting together a business model and trying to decide, okay, do I have an idea for a business that can actually bring in money? And while I'm serving these people that I want to serve. You have to run through the numbers. You have to look at the possible revenue streams and the different scenarios around that in order to be able to test out your theory. In order to understand the size of those revenue streams. You have to set some, at least first glance or first draft of your prices because the revenue stream is simply price times volume.

Now the volume you're going to get from your understanding of the [00:03:00] marketplace and how many customers you can potentially have, or we call that market share. And then the other component is of course how much you're going to charge them. They'll usually at a very early stage when you're in this early stage of business, you're going to be using nice big

fat round numbers and averages, right? We're just going to focus on the main offer that we're going to have, and let's do some math around that to see if we can have a successful business based on these first assumptions. What often happens when you're testing out these business models is you realize you need to adjust some of those assumptions and, or adjust your business model or some aspect of it.

This is why it's important to look at pricing early on, because it enables you to be able to do that. Of course, if you're a startup seeking funding, Or a small business who's goes to the bank, looking for a small business loan. This becomes even more [00:04:00] critical because it is part of your business plan. And may also be part of your pitch if you're pitching to people.

Pricing is going to be part of that because they are going to want to know how they're going to get either their loan paid off or a return on the investment they're making with you. Again, pricing is a big piece of that puzzle, smart investors, intelligent bank loan officers they're looking to understand how you're going to generate profit in your business. And that is a combination of your revenue minus the costs. In order to calculate that revenue, you've got to have an idea how much you're going to be charging people. This is reason number one, you need to start with pricing earlier, rather than later.

Let's look at reason number two. Reason number two is that it helps you to tell your story. As I [00:05:00] said before, some of you are going to need to do pitches. Pitches are an important part of building your story for investors. But you're also going to be pitching to potential customers. You may be pitching to partners. Either partners, like if you had to have a business partner in your business or partnership partners. Maybe you're running a business that targets other small businesses, maybe you want a partnership with a lawyers and accountants who also work with small businesses. You're not partners in the business, but do you have a partnership agreement with each other? And in such agreements or when you're looking for partners or when you're pitching, as I said earlier, they're going to want to understand your business model, your prices, so on and so forth.

It helps you to be able to tell the story of how you're going to be able to bring money into [00:06:00] your business while serving those target clients. Again, it just is such an important part of your business and it is an important part of how you behave in your business. I always tell people that pricing is a way of being in your business, as opposed to just an activity you do from time to time.

As such that means that you've got to understand that. The principles of pricing. If you're new to business, you need to have that understanding of profitability and where price fits into that in order to be able to tell that story and explain to people what you're going to be doing in your business and how it's going to be successful. That is reason number two, that you're going to be starting with pricing earlier, rather than later.

The last reason that this is important [00:07:00] is because pricing is how you're going to earn money in your business. I can't put it any plainer than that. If you don't have prices, then you're not going to sell anything and you don't have a business, right.

You have to be able to set prices that are profitable. This is where this topic of new products and offers also comes into play. Years ago, when I was in the corporate world, there's actually been several examples of this, but I'll tell you one, you know, we went through this whole process of, I think it was two and a half years, R & D on a new product that we were launching.

Just before going to market we started having the pricing discussion. I was relatively new in the company at the time as, so I was there, but not able to fully participate based on the history, but part way through the conversation I leaned over to the boss and [00:08:00] I said, "Have we not had the pricing discussion before?"

And he goes, "No, we haven't". And I was stunned quite frankly, because you need to have that conversation during the R & D phase. The problem that we were faced with in that meeting was that for such offers, we had a minimum margin requirement within the company. We said, we couldn't go below this margin, this profit margin with this product.

We had a target price that led to a margin that was well below that. Then we were having this discussion, what are we going to do? Are we going to try and force people to pay an above price at above market price for this product? Or are we going to take a less than desirable margin on something we just spent two and a half years developing?

This is one of the things that you want to avoid when it comes to new products, because that is directly [00:09:00] going to impact your bottom line i.e. the profit. When you start with pricing early on in your business, you can understand your ability to earn money. When you start with pricing early on in the development phase of your products and offers, then you can actually better understand your ability to earn.

With that product, This is the point here. It has a huge influence and impact on this. The sooner you bring it in the discussion, the better decisions that you can make along the way. In this meeting that I was in, all of a sudden, we were talking about how can we reduce the production costs of this, this product?

Is that possible? And then trying to send the procurement team out to find better solutions cost-effective solutions. We were wasting time. Trying to fix this problem before we're going to market. If that conversation hadn't been had earlier, we could have avoided that drama [00:10:00] and been right and ready to go out to market with something that was both suitable from an internal market perspective, as well as suitable to the customer in terms of the price positioning.

Now, this may seem very complicated, but you have to remember as you're in the life cycle of your business or a product or offer, you're going to look at pricing with a very heavy lens before you go to market with it earlier of that, than that, when you're in the early stages of your business or of developing your offer, you're going to look at it with a wider touch.

Then you're going to come back and look at it with a heavier touch to confirm everything that you've done before you launch it out into the world. Then of course as time goes by, you're going to continue to manage that price. These are the three reasons why it's so

important for you to be looking at pricing sooner [00:11:00] rather than later in your business.

Let me recap those. Number one, it has to do with proving or confirming your business model two, is it helps you tell your story about how you're going to generate revenue and profit in your business? And number three, it helps you to understand, or it helps you to have the ability to actually earn money in the most effective way in your business.

That's maybe something I didn't state as clearly, this ability to earn pricing is how you earn. But when you start with pricing early on, you can earn more effectively because there's less trial and error when it comes to the pricing. That's what I wanted to share with you today, ladies and gentlemen, I wish you great success and all the best.

If you'd like to reach out to me to find out more about how you can get [00:12:00] better at pricing and set the right pricing strategies in your business, you can head on over to www.jananeliston.com/discoverycall. It would be my great pleasure to talk with you about what's going on with pricing in your business and to share with you how I can best help you.

Have a great day. And until next time, enjoy pricing everyone.