

Intro to Competitor-Based Pricing

A Beginners Guide

Introduction

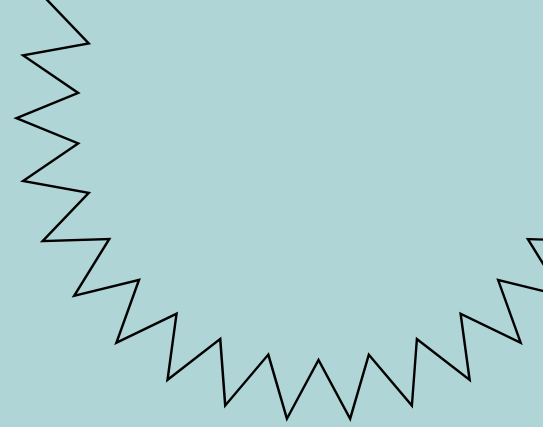


Competitor-based pricing, a model rooted in the earliest forms of commerce, has grown and evolved alongside economic progress. From traders adjusting prices based on competition in ancient markets, to the intricate balancing act of considering costs and market demand in the industrial age, this model has always played a central role in business. The digital revolution brought about real-time competitive price monitoring, enhancing the dynamism and responsiveness of these models.

In this guide, we'll take a look at:

- Competitor-based pricing and what it means for companies that want to get ahead
- Benefits and challenges associated with implementing competitor-based pricing
- Five areas to focus on when getting started with competitor-based pricing

What is...



WHAT IS COMPETITOR-BASED PRICING?

Competitor-based pricing is a pricing model that sets the price of a product or service based on what the competition is charging. This model requires companies to assess their products against competitor offers, define their competitor set, and conduct market research to collect relevant data – including competitor’s prices – to analyze and assess. A core component to competitor-based pricing is positioning (i.e. price below, similar, or above competitors). Ideally, the competitive price positioning decision is based on a data-driven strategy.

BENEFITS

Competitor-based pricing can help companies stay ahead of the competition by adjusting their prices quickly when needed. Furthermore, it’s an affordable and tactful way to reposition in the future especially when priced below competitors. Lastly, competitor-based pricing can help companies gain insights into customer preferences and market trends, which can be used to develop targeted pricing strategies.

CHALLENGES

One potential challenge that companies may face is the lack of accurate information about their competitors. This can lead to setting prices either too low or too high, resulting in short-term gains and customers. Additionally, companies may be at risk of entering a price war with competitors, which can hurt profits in the long-term. Finally, the growth opportunity can be limited because one core assumption is your product is a replacement, rather than additive and expansive in the market. This can result in a loss of actual or perceived value that your product creates.

5 Areas of Focus

To get started with competitor-based pricing, focus on conducting market research, defining your competitor set and assessing your products against competitors' offers. Utilize data analytics tools to gain insights into customer preferences, price trends and market dynamics. Develop a pricing strategy that aligns with your company and its goals. Keep prices competitive without sacrificing value and too much profit. Finally, monitor customer feedback and make adjustments as needed.

- ASSESS THE COMPETITION
- USE DATA ANALYTICS
- DESIGN YOUR PRICING STRATEGY
- KEEP PRICES COMPETITIVE
- MONITOR CUSTOMER FEEDBACK

Closing

Competitor-based pricing is an integral part of a high-impact pricing strategy. It requires keen awareness of market dynamics and a deep understanding of your competitors. As a pricing model, it can serve as an effective lever in driving business growth and profitability when backed by rigorous data analysis.

Competitor-based pricing is just one of many tools at your disposal; the key is to blend it effectively with other pricing models and strategies to capture maximum value for your offerings.

