Social Entrepreneurship Series Part 8: Master the Art of Pricing your Products

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Nderitu passionately desired to expand his education to include an undergraduate degree from one of East Africa's top private universities. The problem facing him - like many prospective students – is school fees. So, Nderitu took an innovative approach.

He scouted out the few top private universities taking special note of student purchasing habits and the availability of products in shops and stores around the campuses.

Nderitu intuitively noticed that university women often lacked access to quality beauty products and they frequently traveled into the Nairobi city center to pursue beauty options and cosmetics. Inasmuch, Nderitu determined that he could fund his entire university education by setting up a high-end hand crème and lotion distribution business in whichever campus he chose.

However, Nderitu ran into problems with his customer segments' expectations on product pricing. Some women desired to negotiate prices for the beauty products while others wished only to see fixed prices meanwhile others clamored for quality cosmetics without any inclination to pay premium prices. In short, Nderitu discovered the classic entrepreneurial pitfall of pricing goods and services.

When forming your business, you must determine whether you desire a fixed menu of prices or whether dynamic pricing seems the most appropriate. Fixed pricing involves predefined prices based on static variables. In the event that you intend to post your fixed prices, there exist four main options.

First, you might opt for list prices whereby individual products and services each hold certain set prices. Often high volume stores, such as Uchumi, utilize list prices. If Uchumi endeavored to negotiate prices for every banana, hand crème, or water bottle sold, complete chaos would ensue.

Second, product feature dependent pricing exists as an option based on the number or quality of value proposition features. Large builders would demand many various sizes and colors of roofing tiles, as an example. When customers desire a variety of quality features, it makes sense for the entrepreneur to provide variable prices with extensive detail.

Third, customer segment dependent pricing may lead you to give different prices for different customer segments. Banks famously may charge differently for the same current account, from 300 KSH per month for the common customer, roughly 1,000 KSH for medium customers, and over 4,000 KSH per month for premium private client customers. Could you charge different set prices to your different customer segments?

Fourth, you could set prices depending on the amount purchased. A builder purchasing 500,000 roofing tiles would demand a better price than a small builder buying 1,000 tiles. A matrix pricing scheme showing the discount for each additional volume target may work for you.

Alternately, you could implement dynamic pricing that changes based on market conditions. Kenyans when shopping in towns love to negotiate with shop owners to purchase trousers, for example. Bargaining depends on the negotiating powers of those involved. Negotiations require one on one interactions.

On the other hand, you may choose yield management pricing. Airlines and hotels most famously incorporate yield management. During busy seasons, airlines and hotels charge more. If a hotel on a particular night only holds 30% occupancy, then it likely charges less per new customer in order to boost occupancy. Oppositely, when an airline sells a ticket, consumers purchase the cheap tickets first and as the airplane fills up for a particular trip, the price for a ticket on the same flight goes higher and higher. No negotiations are usually involved. The price change for yield management fluctuates automatically based on pre-set conditions and algorithms.

Kenya now enjoys an additional option of real-time-market pricing. Prices in certain sectors fluctuate immediately based on supply and demand at any given moment. EBay, when it formed in the United States, rolled out immediate pricing to the masses. OLX trends in that direction. The most common user of immediate supply and demand transactions with wildly fluctuating prices every minute involves the Nairobi Securities Exchange. Mumias Sugar stock, for example, could jump around dramatically even within one hour based on the number of buyers and sellers every moment.

Finally, Kenyans may include auctions as a form of dynamic pricing. The real estate or industrial equipment sectors often rely on auction pricing. Similarly, banks incorporate auctions to dump seized client assets. The normal consumer who attends an auction often becomes fascinated by the fast moving, fast talking, and chaotic atmosphere that somehow works together like an orchestra finally yielding a useful result.

In summary, which method of pricing works for your business? Would your clients tolerate negotiations or do they require clear structure with fixed menus? Does your business enjoy a few very large clients or utilize thousands of small volume customers? What do your customers want? Could you think of different pricing strategies for different customer segments?

So, how did Nderitu develop his cosmetics business to fund his post-secondary education? He incorporated fixed menu pricing with details differentiating quality variations among the hand crème, as well as discounts for large purchasers. His clients enjoyed the clarity and specificity and as a result, he remains with only two semesters remaining in his program.

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In next week's edition of Business Talk, we explore “Identifying Key Resources for your Business“. Current and prior Business Talk articles are available on our blog archive.

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