

Six Tips for Better Pricing

Start generating new funds and serving more people tomorrow morning.

By Rafi Mohammed



It's an ongoing dilemma: While you want to set low prices for those who need your services, you also need revenue to improve those services. Here are six tips to help you serve people better and increase revenue by offering pricing choices.

1. Adopt the right pricing mindset

Some customers value and are willing to pay more for your services or products than others. It's okay—actually it's necessary—to charge higher prices to some and use the extra revenue to subsidize others (via discounts). This perspective often creates controversy within an organization. It's important to discuss and gain consensus amongst key employees on this new pricing mindset to ensure a seamless execution of a revenue and growth strategy.

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2. Stop marking up costs

The most common mistake in pricing involves setting prices by marking up costs (“we need a 30% margin”). While easy to implement, these “cost-plus” prices bear absolutely no relation to what people are willing to pay. As a result, mission funding opportunities are left on the table daily.

3. Set prices that capture value

Manhattan street vendors understand the principle of value-based pricing. The moment it looks like

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rain, they raise their umbrella prices. This hike has nothing to do with costs; instead it's all about capturing the increased value that consumers place on a safe haven from rain.

The right way to set prices is to think like a customer. Customers evaluate a product and its next best alternatives and then ask themselves, “Are the extra bells and whistles worth the price premium?” They choose the product that provides the best value for the money.

New York's Metropolitan Museum of Art raised its recommended donation from \$15 to \$20 based on the value it offers customers. The price increase was in line with the admission price charged by the Museum of Modern Art (a next-best alternative). Plus, unlike most museums, the Met provides the benefit of *not* adding a surcharge for special exhibitions.

4. Create a value statement

Every organization should have a value statement that clearly articulates why customers should purchase their product over next-best-alternative offerings. Be specific in listing reasons. This isn't a time to be modest. Your statement will boost the confidence of your frontline workers so they can look people squarely in the eye and say, “I know that you have options, but here are the reasons why you should use our service.”

5. Understand people's different pricing needs

Most organizations view pricing as a two-lever strategy: Raise or lower prices. The key to developing a comprehensive pricing strategy involves embracing (and benefiting from) the fact that customers' pricing needs differ in three primary ways: product valuations, product preferences, and pricing plans. Here are three ways to serve these diverse needs.

Implement differential pricing. A fundamental part of most nonprofits' missions is to serve people with lower incomes. After setting a value-based price, it's important to provide “back door” discounts to price-sensitive customers. Examples include offering discounts via coupons, organization affiliations, off-peak times, and targeted outreach programs. Be creative. Ask, “What tactics can we use to identify and serve people who care about price?”

Offer product versions. One of the easiest ways to enhance profits and better serve customers is to offer good, better, and best versions. To implement this strategy (called “versioning”), focus on what your customers value. The Met, for example, found that its customers value a relationship with the museum. As a result, it offers 15 annual membership choices ranging from \$60 to \$20,000. (The \$20,000 President's Circle Membership includes a private reception with the museum's

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president.) A key differentiator of each membership version is the relationship level with the museum. While admission is technically free (a donation is *recommended*), over 128,000 people chose to pay for a membership last year. What versions can capture the differing value that your constituency places on your organization's products and services?

Provide pick-a-plan options. Customers are often interested in a product or service but refrain from purchasing simply because the pricing plan doesn't work for them. Instead of making a donation in the future, for instance, some may prefer the opportunity to donate (and enjoy benefits) today if the pricing structure is right. Harvard University offers the option to reap benefits today by donating \$25,000 or more and then receiving guaranteed annual annuity payments for life. What new pricing plan will activate your organization's dormant customers?

6. Use pricing tactics to complete your customer puzzle

Think of your potential customer base as a giant jigsaw puzzle. Each new pricing tactic adds another customer segment to the puzzle. Normal Nancys pay full price (value-based pricing), Immediate Gratification Gregs are attracted by annuity options (pricing plans), High-end Hannahs buy the top-of-the-line option (versioning), and Discount Davids are attracted by promotions such as 50% off on Tuesday (differential pricing).

Starting with a value-based price, employing differential pricing, a variety of versions, and pick-a-plan tactics adds the pricing-related segments necessary to complete your customer strategy. Offering pricing choices generates growth and increases profits.

Since pricing is an underutilized strategy, it's fertile ground for new revenues. The beauty of focusing on pricing strategies is that they're straightforward to implement and can start producing higher revenues almost immediately.

What pricing windfall can your organization start reaping tomorrow morning? ■

Rafi Mohammed, Ph.D., is the author of The 1% Windfall (Harper-Business, http://www.amazon.com/1-Windfall-Successful-Companies-Profit/dp/0061684325/ref=ntt_at_ep_dpt_2).

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- **How to Price Strategically** (Vol. 29, No. 3)
- **Looking for Customers rather than Handouts** (Vol. 22, No. 6)
- **Pricing Your Product or Service** (Vol. 10, No. 3)
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