

## **Priced to fit: Bespoke pricing is the smart way to maximise your margins**

By Tom Wells

**Centralised pricing is great for consistency and control. But by being too expensive for some customers, while undercharging others, traditional one-size-fits-all pricing can kill profitability. Could flexible and localised 'bespoke pricing' do a better job?**

With costs rising, margins tightening and prices coming under intense scrutiny, it's more important than ever to get your pricing right. In most businesses, prices are set by a centralised function. This has merits. It gives you consistency in pricing levels and promotions – and removes pricing decisions from local teams, who may go against the overall strategy of the business or fail to understand what customers do and don't value.



## Money left on the table

But with consistency comes pitfalls. It removes flexibility and market sensitivity. The result is loss of revenue and return.

Customers in some areas are more price-sensitive than others and hence willing to shop around in search of cheaper alternatives. On the flip side, some customers might actually be willing to pay more – if the offer is more convenient, the surroundings more attractive or there's a lack of competition in the neighbourhood.

Others might even prize the product or brand so much that they'll pay extra rather than switching or going without. However, pricing does not tend to be as mature or developed as other areas of business strategy such as product development or marketing. It therefore fails to reflect these important variations in customer value perceptions.



## Pulling the levers of value

This is where price optimisation – in this case bespoke pricing – can provide an important step forward in strengthening product appeal and margins. At a basic level this is about matching the price charged with customers' varying value perceptions. However, rather than just reflecting the maximum price the customer is willing to pay, the optimal price needs to take account of your strategic objectives and positioning within the market.

## Ear to the ground

So how can you get the balance right? From our work, it's clear that knowledge and insight are key in what is a combination of data analytics and specialist judgement.

This mix of art and science allows you to walk the line between flexibility and control, reflecting economic circumstances and levels of competition locally, while sustaining central oversight and avoiding a free-for-all on pricing. When we dug into this in more detail, we found that bespoke pricing can boost margins by 2-5% of topline revenue.

How does this approach work? Typically, it starts by evaluating what local customers value, what competitors are doing and the impact on sales levels of raising or lowering prices. Bringing together all these factors and the trade-offs between them allows you to set a price that customers are willing to pay – and maximises margins without denting sales volumes.



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This approach can help set optimal prices for different locations. It's also possible to successfully apply variable prices at different locations within the same city.

The other big advantage is the ability to carry out 'what-if' evaluations to test the likely responses to particular pricing strategies, without the need for on-site trials. This allows you to move more quickly. It also makes costly errors less likely, such as price increases that drive customers elsewhere or damage goodwill.

Crucially, the main priority isn't pushing prices to their limits. Rather it's matching prices to the circumstances on the ground. For example you could offer targeted promotions geared to particular areas or segments in line with your overall business development strategy.



## Making it work

But experience shows that bespoke pricing is more suited to some sectors and businesses than others. It also has to be set up in the right way. Drawing on our experience of what works and what doesn't, three key foundations for success stand out:

### 1/ Take the lead

Be clear about your market position – do you want to be a premium, mid-range or low-cost provider?

Be prepared to take the lead on pricing. Competitors will inevitably respond. But with a better understanding of what customers value and what prices the market will bear, you're in a strong position to win out in the long-term.

### 2/ Bring the business on board

Effective training and governance are vital to help local teams deploy bespoke pricing in the best way, while giving central sales teams the necessary oversight and control.

There may be resistance to change at first. So, it's important to take time to explain how bespoke pricing works and the benefits it can deliver. Running pilots can help to raise awareness of the gains and build support for implementation elsewhere.

### 3/ Get the data right

Metrics and evaluations need to be closely tailored to your business and its marketplace. To be sure that your data feeds and outputs are reliable and usable, you'll need to regularly test them against actual experience on the ground.



## Pricing to win

One-size pricing rarely fits all. Centralised pricing is no exception. Moving to bespoke pricing can boost margins without jeopardising market share and overall strategic goals. But it's only as effective as the quality of the analysis and readiness of sales teams to embrace the possibilities.

## Get In Touch

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