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7 Ecommerce Pricing Strategies to Help You Increase Sales & Maximize Profit

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Does the price make the product, or the product make the price? This is a question many businesses ask themselves when deciding how much they should sell their product for.

> **It's quite an important decision to make, since 60 percent of online shoppers state that ecommerce pricing is the most important thing that affects their buying decision.**

If you, too, are wondering what the top strategies are when it comes to pricing, keep reading.

What is an ecommerce pricing strategy?

In essence, pricing describes the amount of money a company charges for its products.

However, calculating how much your products are worth is not as easy as you may think. I the price is too low or too high, you may end up losing a potential customer forever.

This is why companies use pricing strategies. These are methods used to set prices after careful planning and analysis. The aim is to set a price that will boost ecommerce sales while combating competition. Deciding which pricing strategy you should use will depend on many factors.

The importance of a pricing strategy

Nowadays, consumers can use specialized apps to check and compare the prices of the same product in different stores. So yes, setting the right price for your product is harder than ever.

> **If the price is too low, you won't be able to sustain your company in the long run. If the price is too high, you'll be sacrificing many customers who can't afford your brand.**

Before you choose a pricing strategy for your business, you should set up long-term objectives and use them as the foundation in your decision-making process. Sticking to those objectives will help you scale your business and increase revenue in the future.

However, even when you have the perfect ecommerce pricing strategy, be ready that you might need to adjust it at some point. As a business owner, you should never conform to one unchanging strategy in an ever-changing world.

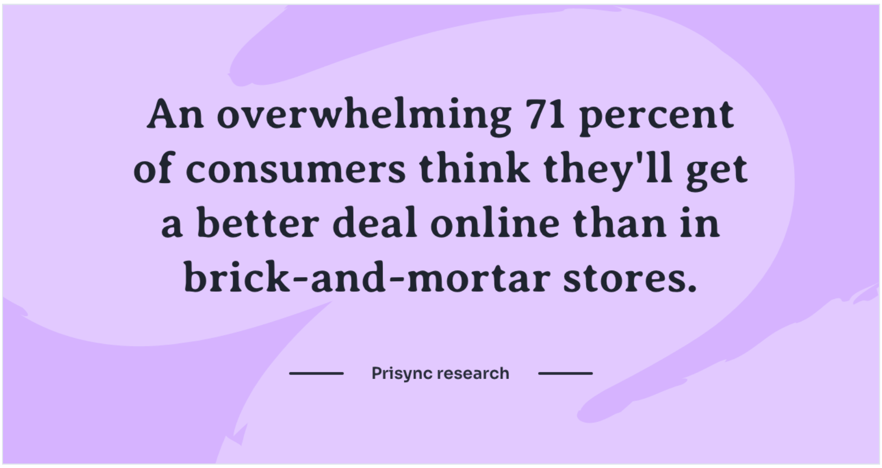
Factors to consider when creating a pricing strategy

When it comes to setting prices for a product, some think that the most important thing t look out for is how much competition is charging. This is not entirely true.

Though competitors' pricing can be informative, there are other factors to consider.

Your customer

Customers are the most crucial factor in deciding how to price products. Ideally, you should develop a buyer persona – a research-based profile that describes your ideal customer and the price range that will be acceptable for them.

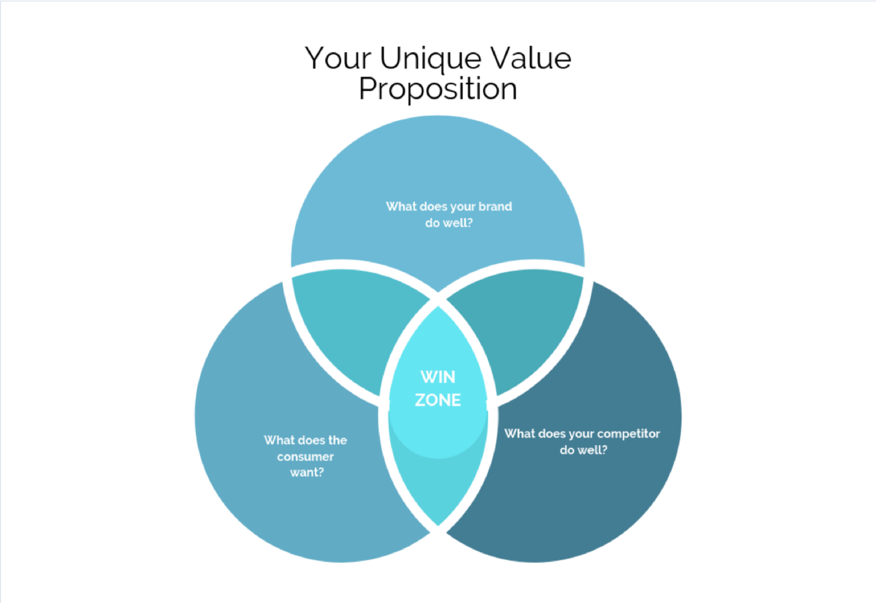


One way you can develop a buyer persona is by talking with your existing customers. For example, if you have a call center or customer-facing team, encourage them to make pricing a part of their conversations. This way, you'd be getting direct feedback from customers and boosting your call center service level at the same time.

💡 You can also use the Van Westendorp price sensitivity meter – a short survey designed to help you find the optimal pricing point that will maximize potential revenue from a give product.

Your unique value proposition

Another crucial step is to find out what gap in the market your business is filling. You should not conform to being just another clothing brand, for example. Find out what you'r offering that nobody else does and see it as another factor that contributes to your pricin



Despite the common opinion, having a unique value proposition isn't just 'good for branding'. According to Millward Brown, a global research agency specializing in advertising effectiveness, companies with a clear, strong UVP achieve 5X more growth, compared to the companies with weak UVP.

Your competition

As mentioned before, studying competitors' prices is also a big part of a pricing strategy. This can help guide you and establish limits. We'll talk more about competition-based pricing strategy in a few paragraphs.

7 Ecommerce pricing strategies you should know about

Deciding what the best pricing strategy may be for your company will take time and research. You should ask yourself how you want to be perceived by consumers and what's the smartest choice for your company's economy. Here are seven common examples of pricing strategies used in ecommerce.

1. Cost-plus pricing strategy

The cost-plus pricing strategy, also known as 'markup pricing', creates revenue by adding fixed percentage margin to the cost of the product. You simply need to gather the base costs like supplies, labor, and any infrastructure (fulfillment center costs, for example) and add a profit margin between 50-100%.

Cost-plus pricing pros

This is one of the most popular pricing strategies, especially among startups and smaller ecommerce businesses. It's transparent, relatively easy to calculate, and might be the first go-to choice if you're just getting started.

Cost-plus pricing cons

Some companies think this strategy is so simple that they don't need an accountant. It's a false assumption that makes room for calculation errors and can lead to huge economic loss for the business.

2. Competition-based pricing strategy

When implementing a competition-based strategy, you should be looking at similar products in the market and the prices set by our competitors. Once you complete your research, use the average price in the market as a benchmark and make a better offer. In case you're struggling to provide a lower price, you can also mark the difference by offeri free shipping.

Competition-based pricing pros

This strategy is ideal if you want to draw budget-conscious consumers: low prices tend tc be a surefire tactic to attract first customers. Plus, there are many online apps like Ecomhunt, Allfactor, and Niche Scraper to make your market research faster and easier.

Competition-based pricing cons

Remember that it's tougher for ecommerce businesses to secure customer loyalty. It's ver easy for consumers to browse from one online shop to another until they find the price they're willing to pay. There's no guarantee other brands won't lower their prices too, making it harder for you to make a profit – especially if you're a new player in the market. And that's another reason why having a unique value proposition is so crucial.

3. Price skimming strategy

This strategy focuses on decreasing a product's price over time. Price skimming is ideal for technology companies, as their products become less valuable as updates and new features are introduced.

PlayStation is a great example of a brand using the price skimming strategy. When a new console is released, the older versions and its games gradually get cheaper.

Price skimming pros

This is a great strategy for in-demand products. Although many customers will prefer the newer products, cost-conscious consumers will wait to benefit from the price drop.

Price skimming cons

Unfortunately, this strategy is only effective for companies with a large audience of devoted fans. If you own a smaller, lesser-known business, it may not be the best option for you.

4. Loss-leader pricing strategy

Loss-leader pricing consists of promoting or bundling a discounted product with additior products. This increases the average order value and, overall, can be a very profitable strategy.

Loss-leader pricing pros

This strategy is a great way of luring customers into buying (more of) your products. Creating bundles or offering accessories can also help you recover from an initial loss or sell the items that have been sitting in stock for too long.

Loss-leader pricing cons

This strategy will only be effective in the long run if you manage to pique your customers' interest with other products that aren't a part of a bundle. If you fail to achieve customer loyalty through loss-leader pricing, you should consider using another strategy for your store.

5. Premium pricing strategy

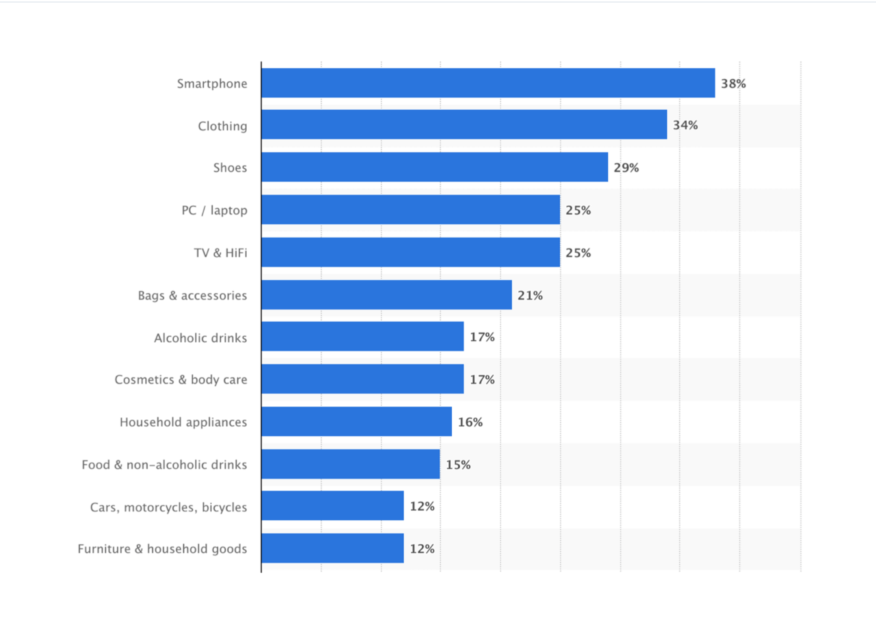
This pricing method is used for luxury and more expensive products. Its goal is to reflect the quality and status attached to the brand and product with the high price.

Premium pricing pros

If your product falls into the category of luxury, premium pricing can be extremely beneficial because it tends to include high margins, and who wouldn't like that? It also set your target audience apart, often attracts influencers, and helps with PR.

Premium pricing cons

The biggest disadvantage of premium pricing is that both your target audience and your product category options are rather limited. According to Statista, most people are willing to pay premium prices for technology products, clothing, and accessories only.



6. Anchor pricing strategy

Anchor pricing allows the customer to see how much they would be saving if they bought discounted item. The original price is placed next to the discounted one. You can also plac your product next to a similar one with a higher price. This strategy is all about comparis and offering a great deal.

Anchor pricing pros

One of the most common customer needs is to feel like they're getting a fair price. Anchor pricing provides that confidence and contributes to a quicker purchase decision.

Anchor pricing cons

Balance and common sense are key to this strategy. For example, if the discount is too hig it may cause a sense of distrust. If the discount is too low, it may not look enticing enough to the customers.

7. Psychological pricing strategy

The psychological pricing strategy dates back to the 1880s when Victorian shop owners in the UK decided to end their prices with a nine: £9.99 instead of £10 or £59 instead of £60. This is known as a charm price and its objective is to emphasize the perceived value to the customers.

> **There are several theories explaining why charm prices work so well, but the fact remains: they work better than the prices ending in round numbers.**

One reason why odd numbers are more attractive to customers is the so-called "left-digit effect" — the inability of customers to clearly remember the numbers past the first digit. This way, $39 turns into $30-something, rather than almost $40.

Psychological pricing pros

This strategy can really rocket your sales. William Poundstone stated in his book Priceless that, on average, charm prices increased sales by 24 percent. More so, Gumroad, a platform where creators can sell their products and services, has discovered that charm pricing can increase conversions by whooping 100%.

Psychological pricing cons

There are no significant disadvantages in using charm prices. However, if you choose this strategy, the best practice is to either be consistent and apply it to all products in your store, or use it during short-term sales to increase profit.

Choose the right pricing strategy combination for your store

While it's a good idea to have one main pricing strategy, combining multiple coherent strategies may help you boost sales in the short run. For example, you can use cost-plus pricing as your main strategy while implementing anchor pricing or psychological pricing during sales.

Most importantly, keep an open mind and remember that your strategy can change or evolve over time as your online store grows.

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