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3535 Roswell Road, Suite 59
Marietta, GA 30062
770-509-9933
www.pricingsociety.com

How to Find Out What Customers Will Pay

Want to find out how much your customers are willing to pay? Just ask them! While you can't come out and directly say "how much will you pay," this article provides insights on how to indirectly ask these crucial questions. Rafi Mohammed is the founder of Culture of Profit LLC, a Cambridge, Massachusetts-based company that works with businesses to help develop and improve their pricing strategy, and author of the Pricing for Profit Blog. He can be reached at rafi@cultureofprofit.com.This article originally appeared in the Harvard Business Review blog at HBR.org.

It's one of the most fundamental decisions that every business must make: What price should I charge? The right answer to that question is a company should charge "what the market will bear" — in other words, the highest price that customers will pay.

Unfortunately, few companies use this approach. Instead, prices are usually set using "that's the way we always do it" processes such as marking-up costs, matching competitors, hallway discussions, and back-of-the-envelope calculations.

Sound familiar? While easy to compute, these methods don't incorporate the most important component of setting a price — an understanding of how much customers will pay. As a result, these prices have no correlation to what the market will bear. This leads to lost profits.

So how do you find out how much your customers will pay? It's simple: Ask them.

Of course, you can't ask customers directly how much they are willing to pay — they'll likely shade the truth (by giving a lower price) to their benefit. That said, there are a variety of ways to better understand how your customers think about your price. In my work, I often interview customers, seeking to identify "areas of disconnect" — profit opportunities — where customers view pricing differently than management.

Here are the "secrets" you should use to better understand how customers think about pricing:

First, position the interview as a customer satisfaction survey. Your goal is to understand what customers like or value about your product or service and gain insights that will better serve them in the future. Customers appreciate being asked how they can be better served and often become chatty.

Next, ask a series of general satisfaction questions and be sure to include the following pricing-related questions:

1. What rival products did they consider purchasing? If customers tell you they do not bother to look at other products, this is a clear signal of an opportunity to raise price. Alternatively, those who consider several alternatives are likely to be more price-sensitive. This question is the start of creating a pricing-related customer segmentation — identifying characteristics of customers who care about price and those who don't. In a B2B environment where prices are individually negotiated, this segmentation is critical to determining the right price for each customer.

2. What do they think about your price: too high or too low? Don't probe too much — simply ask and listen. Some interviewees will discuss at great length while others will clam up. Take what you can get on this question and move on.

3. Ask what other features they would like to be added to the product. These insights will help companies better understand what customers value — and what they're willing to pay a premium for. This can lead to innovation: new add-on offerings as well as good-better-best versions. I always like to ask what insurance options customers would value too.

4. Ask what they like and don't like about your pricing strategy. This open-ended question provides interviewees an opportunity to discuss pricing.

5. Ask if they like the way they purchase your products or if there are other ways they would prefer to buy your product. Most companies sell products using à la carte pricing — pay per transaction. But there are many other innovative pricing techniques that can be used to sell a product (e.g., two-part, all-you-can-eat, guaranteed future price, success fee, rental, lease, etc.). If customers prefer a different method of setting prices, be open to meeting their needs.

Answers to these five basic questions lay the foundation for new profit and growth pricing initiatives.