



Price and product benchmarking

Introduction

While developing a pricing strategy it is important to have an understanding of your competitors, in particular the ways in which they are choosing to price their products. The aim is to benchmark your products and prices with those of your competitors in order to understand how your enterprise fits into the greater marketplace.

Looking at the competitive pricing landscape helps you:

- Determine if your product or service is above, below, or at average market price
- Understand what your existing and potential customers see and experience when searching for similar products or services
- Identify your strengths and weaknesses compared to your competitors
- Identify weaknesses in competitors and see where you can fill in the gaps

There are whole industries built up around providing companies with real-time competitive pricing data and this process can be as complex as you want it to be (and can afford). However, for most social enterprises, doing a basic pricing competitive analysis can be done internally with a little bit of investment in time. This learning guide will provide you with a tactical overview of the basics on how to conduct an effective price and product benchmarking project.

1. Define your competitors

A full competitive landscape analysis will take into consideration all competitors, both direct and indirect. Your direct competitors are those that offer the exact same products as you, while indirect competitors are those that offer products that could be seen as substitutes for yours in the marketplace.

For example, let's take the fictional Socent Past Sauce Co. which employs formerly incarcerated individuals to make – you guessed it – pasta sauce. For this enterprise, their direct competitors are other pasta sauces, while their indirect competitors are things that could be used as a substitute for pasta sauce – like soup or curry sauces, for example.



In defining your competitors, you will want to narrow the scope to include only those with similar attributes. For example, if you are an organic producer you may only consider other organic producers as your competitors. Your determination of this should be informed by your understanding of your customers' key purchasing criteria. If a particular attribute is extremely important to your customers, you may want to narrow the scope of your competitive analysis to reflect who your customers are and what they want.

At the end of the day, what's important is that you have a clear definition of your competitors so that you can collect the relevant data on the appropriate companies.

2. Gather competitor pricing data

Once you have clearly defined your competitors, the next step is to gather the relevant data. While the data that is relevant will be specific to your industry, common data points include:

- Price
- Volume
- Serving size
- Key product attributes

Part of this exercise will be acting like a consumer. Think about how your customers find you and then use those same methods to look for your competitors. Sales channels play an important role here since prices may vary among different retailers. So in addition to capturing product attribute data (such as volume or serving size), make sure you capture the price charged for that product in different channels. At the end, you should use an average of those prices for benchmarking purposes.





Perhaps your enterprise offers an on-demand product that doesn't have a "shelf" price, per se – this will be particularly true for service industries. In this case, you may want to gather data by actually asking for quotes from your competitors. If it is common practice in your industry to offer discounts for bigger orders, then be sure to get two different quotes from each vendor, one for a smaller order and one for a larger order.

3. Standardize and analyze prices

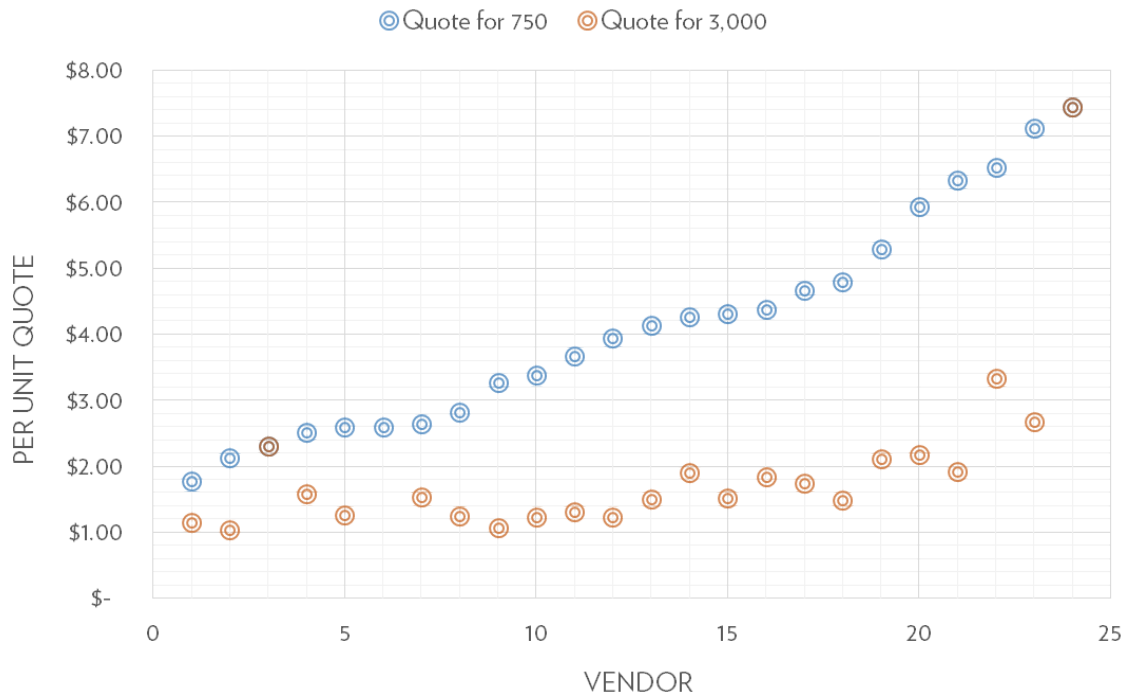
Once you have gathered data on your competitors, the next step is to standardize the data to allow for direct comparison.

Taking the above example, the Soцент Pasta Sauce Co. has identified three other brands of pasta sauce as its main competitors (in reality, the number of competitors is likely to be far greater). While the prices range from \$3.49 to \$4.98, that doesn't tell the whole story. The next step is to standardize for size, number of servings, or any other important attribute. Essentially you are trying to get to a standardized answer to the question of "how much does a customer have to pay for 1 unit of a given attribute?"

In the Soцент Pasta Sauce Co. example, given the variety of product sizes it is appropriate to consider how many servings a customer gets for the price. Or, in other words, how much does a customer have to pay for one serving of pasta sauce? With a "cost per serving" data point you can now compare the price of each with more precision.

	Soцент Pasta Sauce Co.	Competitive Brand Pasta Sauce	Small Batch Pasta Sauce	Another Pasta Sauce
				
Average Price	\$3.72	\$3.49	\$4.98	\$4.08
Servings	2	3	1	2
Cost / Serving	\$1.86	\$1.16	\$4.98	\$2.04
Star Rating (# Reviews)	5.0 (5)	4.1 (155)	4.9 (52)	4.2 (22)
Sales Rank	#281	#15	#37	#66

Similarly, if you are analyzing data from order quotes you can graphically represent the spread in prices among your competitors and determine the effect order size has on the price.



No matter what attribute you choose, whether its per serving or per unit or something else, the important thing is using your data in a way that allows you to make clear and direct comparisons across the marketplace.

Application and Conclusion

The exact implementation of this work will be driven by the intricacies of your industry, which you know better than anyone. What is most important, though, is that you are thoughtfully considering the main attributes of your and your competitors' products and that you determine a way to compare them as closely and accurately as possible. Remember, the goal is to strengthen your understanding of how your products or services are priced relative to your competitors, and to do so as quantifiably as possible.

Completing this process is only one component of conducting a pricing strategy evaluation. You should also develop an understanding of your customers' key purchasing criteria and conduct a break-even analysis for your product or service. Doing so will give you a more complete picture of where you stand in the eyes of your customers and in the marketplace with your competitors. Only then can you properly evaluate different pricing strategies and determine which is most appropriate for your social enterprise.