



Pricing power

At its core, pricing power represents a business's ability to determine and adjust prices for its products or services in response to various market dynamics, customer behavior, and competitive pressures. Understanding pricing power is crucial because it directly influences a company's ability to thrive and adapt in a dynamic marketplace.

Drivers of increased pricing power:

- Product differentiation due to proprietary offering, higher product quality, brand strength, customer loyalty / satisfaction, etc.
- Emerging or growing market with strong customer demand
- Limited, low quality, or high cost competition in target market
- Limited price transparency (i.e. hard for customers to compare prices and purchase competitor's products)
- High customer switching costs (i.e. significant time, effort, and money for a customer to replace product or service with one from a competitor)

Drivers of decreased pricing power:

- Commodity products or services (e.g. gas, milk, eggs, metals)
- Mature or declining market
- Full online and offline price transparency
- Low or no customer switching costs
- Large and sophisticated customers with significant purchasing power (e.g. Walmart, food / drug / mass retailers)

In conclusion, pricing power is a dynamic concept that businesses should continually evaluate in the context of their industry, market, and competitive landscape. By understanding the drivers that can enhance or diminish pricing power, businesses can make informed decisions about their pricing strategies.