

The Woes of Low Pricing

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It's often attractive for a new company, or even one going through a cash-flow crunch, to consider attracting business through low pricing. There are many hidden dangers in this approach, many of which could hamper growth in the long term.

Customers who are attracted solely by a low price may not be the most loyal customer. They were attracted to you because of bargain-basement pricing, so why wouldn't they jump to another company when offered an even lower price (or when you decide it's necessary to raise your price)?

When you provide work at a very cheap rate, it's difficult to save for future expenses that will be vital for long-term growth. Equipment wears out and may need to be upgraded for you to remain competitive. If you don't have the money to upgrade, you may find yourself with outdated equipment, or even with defective equipment that frequently results in costly downtime.

Another problem that arises from low pricing occurs when you have to raise prices. Raising prices can be a very tricky affair when customer loyalty was established because of low pricing. Even mentioning a price increase could send customers scurrying to seek new vendors. And an across-the-board rise in prices to all customers could result in many leaving at the same time, causing a tremendous, sudden loss of revenue. Raising prices to just a few customers is a possibility, but if these customers find out that others are paying less, they'll be annoyed.

The best course of attracting new customers through low pricing is to offer reduced rates to only a few customers. These should be considered your "foundation" customer base that provides a steady cushion enabling you to bring in additional customers at a better rate.

The basis for steady, long-term growth is attracting customers that appreciate the value they receive from you. When your marketing approach is based on presenting your company as providing the best value -- not just the best price -- you'll build a loyal customer base that won't jump ship easily. And you'll establish an adequate revenue stream

that will enable you to purchase new equipment, expand your marketing, hire new employees and upgrade your facilities.

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