

## Why enhancing your business is essential

Running an entrepreneurial business involves taking many factors into account. At both a macro level and a company level, things are always changing: legislation, fashion, technology, communication methods – the list goes on. What is clear is that you can't stand still. To use an old phrase, 'Today's news is tomorrow's fish and chip wrapping.' Even that phrase is out of date; news is mostly online now, and food hygiene rules won't allow newspapers as food packaging!

Apple almost went out of business in 1997, Alphabet (Google) didn't start until 1998, Microsoft started in 1975 and Amazon started in 1994. They all went from nothing to the top in a very short space of time. Apple has grown at a phenomenal annual rate, and newcomers such as Facebook, Snapchat and the like are accelerating even faster. What do they have in common? They redefine markets.

Apple has redefined phones and created a completely new product and service categories (personal music devices, tablets). Google has redefined the advertising world. Microsoft introduced personal computing, and Amazon has redefined shopping.

### A successful business does not stand still

You need to look at your business and make sure it's leading the market rather than following it. Recent history is full of businesses that didn't change fast enough:

- Yellow Pages (will cease to be printed after 2019 – online only)
- Blockbuster Video (closed in the UK 2013)
- Motorola (split and sold to Lenovo and Google)

None are the leaders they once were, and some are out of business. In essence, they lost touch with their customers and failed to produce value for them. It's critical to understand that overall value is what's most important to your customer – not price.

Blockbuster rented out movies but was usurped by Netflix, which also rents out movies but uses a different delivery mechanism and method of pricing. Motorola was dominant in the phone handset market when there was a trend toward smaller and smaller phones. Today, the consumer wants a phone with fundamentally more communication options (eg, an iPhone).

Technology is changing markets, so virtually all sectors need to adapt and utilise technology in the most appropriate way or suffer the consequences. You need to consider how you can embrace technology to improve your business proposition or, indeed, reinvent your business proposition. I will repeat it for emphasis: *A successful business does not stand still!*

## Using human nature to your advantage

First of all, forget about how much something costs to make or how long it takes to produce. Both these figures are irrelevant to the customer.

Now consider this. A relatively new branch of economics called behavioural economics, reveals that in many cases, buying decisions aren't rational.

The human brain can make extremely complex calculations and move rapidly in ways that even the most powerful artificial intelligence based computers can't compete with. Take the simple act of catching a ball. Think of the thousands of brain calculations that make it happen.

- Ears hear someone shout 'catch!' and attention is then captured
- Eyes find the ball (establishing an anchor point), and legs and arms instantaneously move into position; eyes keep following the trajectory of the ball, and hands grasp the ball at the appropriate time – the ball's location throughout the process has been continuously compared to the initial anchor point

The brain processes so much information in such a small space of time, yet the act of catching the ball seems trivial, even for young children.

Despite its incredible abilities, the brain can also be easily fooled. In 2006, Drazen Prelec and Dan Ariely conducted a study at MIT in which they had students bid on items in a bizarre auction. In his book *Predictably Irrational*, Ariely explains that the researchers would hold up a bottle of wine, or a textbook or a cordless trackball and then describe in detail how awesome the item was. Then each student had to write down the last two digits of their social security number. This number would become the price of the item; if the last two digits were 11, then the item was priced at \$11. After they wrote down the pretend price, they bid. Sure enough, the anchoring effect scrambled their ability to judge the value of the items. People with high social security numbers paid up to 346% more for an item than those with low numbers. People with numbers from 80 to 99 paid, on average, \$26 for the item, while those with 00 to 19 paid around \$9.

The brains of students at one of the most prestigious educational institutions in the world were easily fooled.

There are similarities between the ball-catching exercise and the auction. Importantly, in both examples there was an anchor – as Dan Ariely explains: 'Social security numbers were the anchor in the MIT experiment only because they were easy to use and obviously random. The researchers could have just as well asked for the current temperature or the manufacturer's suggested retail price.'

Most buying decisions are made using two basic human abilities: the ability to anchor and the ability to compare. Once you're aware of this, you can use it to help your customers make purchasing decisions.

### Setting the anchor

The most important part of the process is setting the anchor. If you set the anchor incorrectly, you will struggle to move prices very far from that point. Setting the anchor is all about helping customers understand where the start point is. If your service is easily categorised and comparable to something already commonly available, your anchor has been set for you. If you create a category, as Apple did with iPads, you can create your own anchor and effectively control the market.

If the product category already exists, then branding and packaging helps to set the anchor. Everything else is relative. Apple's latest phone, the iPhone X, has struggled to break through the \$1,000 barrier in the US because Apple set its anchor point at \$700–\$800 with earlier iPhones. The latest models are simply not different enough in customers' minds to need a new anchor. Although the product is by no means a failure, the sales numbers haven't reached original expectations.

Successful brands set anchors using congruent branding messages. You can do the same in your business. If you're in a high-quality market, you need to set your anchor appropriately high.

Here's an extreme example. How much would you pay for a bottle of water? There's one that has a price tag of \$60,000 for 750 ml. This is how it's described:

'This glass bottle of water is encased in 24k gold and features a sculpture based on artwork by the late Italian artist, Amedeo Clemente Modigliani.

The contents of the bottle hold a mixture of natural spring water from France, Fiji and glacial water from Iceland. Mixed into the water is also 5mg of gold dust.

The designer, creator and owner of this rare bottle of water – Paolo di Verachi, also won the Guinness World Record for the most expensive bottle of water.'

It's not even pure!

Yes, it's extreme, but it shows the importance of the anchoring and positioning of the product. You can anchor and position the price with any product or service, but making that happen requires planning and consistency.

First of all you need to work out what the customer values, and this will be different in different industries. If you're in a service industry or in retail, you need to give the customer the ability to make comparisons with things that they value.

The simplest example of giving a customer value is to save them money. If you save them £100, then you have given value of £100. In theory, you can charge the customer anything up to £100. But if they don't know you saved them £100, how can you justify charging them anything?

The key is to identify the value to your customers and use it as a basis for setting your price. In my experience, too little time is spent on this. What commonly happens is that businesses look at what their competition is charging and then charge a little bit less. This is categorically the wrong way to price.

Instead, you should ask questions of your customers to establish what is important to them. Depending on your industry, the form the questions take will differ. At one extreme, the questions could take the form of a well-structured shop which leads customers to their optimal price. At the other extreme, you might ask them questions directly, face to face. Generally, the higher the value of the product or service, the more questions need to be asked.

In today's technological world, we can manage the pricing process intelligently. A simple but modern example of establishing the value is common with car servicing. The process is as follows.

**Stage One:** Inspect the car to assess its faults and service needs. At this point, the mechanic will identify what needs to be done. The customer is still unaware of any problem. How can the problem be conveyed to the customer? An easy option is to create a video of the inspection, while the car is in the service bay. Safety issues can be highlighted and categorised, and shown to the customer with some scripted commentary.

**Stage Two:** Present the video to the customer online and link it to a shopping basket of specific repair items that the customer can select.

**Stage Three:** Categorise the repair items as:

- a) A safety issue
- b) Recommended to be fixed within three months
- c) Needs attention before the next service

**Stage Four:** The customer selects the repairs they wish to have done and enters their card details to pay for the transaction.

The above process could be used in many different situations. The key point is that it's customer centric. It demonstrates the value to the customer and enables them to make informed decisions.

Using such a system will enable you to charge more and, importantly, will allow the customer to buy from you at a price which is ideal for them. It's not absolutely perfect but close, and it certainly achieves greater customer buying potential than the mechanic simply taking a deep breath and plucking a figure from his or her head.

There are no hard and fast rules for pricing, but as long as you make a profit, cost should not be a factor.

### **Your Next Steps:**

- Assess your product model - is it still current? Does it solve a big problem (better than your competitors)?
- Look at your competitors and how they approach customers
- Do market research to understand your target audience's expectations
- Talk to a third party business adviser that can keep you accountable and provide expert advice on how to Enhance your business.

Have considered all of the above but the competitors are always a step ahead? Head on to our resources page and get more insights on **Productisation** and **Pricing for your Products**.

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