

The Price is Right... Until It's Wrong



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My grandfather watched “The Price is Right” religiously. I can remember going to his house and seeing this game show (and others just like it) regularly on the television. In fact, I got so used to it that if I timed my visit just right, I knew I’d get to join him while he watched Bob Barker and all of the contestants try their hands at guessing product prices and potentially winning ... “a new car!”

And I couldn’t help but toss out a few answers during the show myself. I can’t tell you how many times I’d shout, “\$1,” with hopes that the other bidders all overestimated the item’s cost.

In playing as a viewer at home, I always thought you had to really know the items and their pricing to win the game. I thought once I grew up and went shopping more I would better understand the cost of various items. It always felt like my grandfather, who had more years of shopping under his belt, was always in the running to make it past Contestants’ Row.

Then I grew up to learn that there are strategy books and articles dedicated to teaching people how to win “The Price is Right.” And many of them tout that you can do so “without knowing any prices at all.”

Huh? Without knowing the prices? I had to see how this was possible.

One guide claims that instead of relying on intuition or the suggestions called out by delirious audience members, applying the principles of game theory could help a contestant win and plant a big kiss on Bob Barker’s cheek.

Game theory says if you bid \$1 over the highest price, you have a 54 percent chance of winning. That’s something I wouldn’t have guessed. Always bid high, especially when the \$1 bid is so popular.

Other strategies involve looking at the history of the game and following basic math equations to determine the right prices to guess.

Of course, there's nothing that can make one spin the wheel better ... but I digress.

That brings us to the topic at hand: pricing. In talking with folks for this month's cover story, which starts on page A22, I heard from more than one source that not only are contractors struggling to charge enough for their services to cover overhead and break even, but there are also some sources who noticed their competitors were charging too much for their services ... and customers were paying those prices.



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I think it's fair to say that no contractor would be successful adopting a "Price is Right" strategy by just looking at their competitor's prices and charging \$1 more or less for their services. But the many pricing strategies out there can be confusing and can come with their own sets of flaws.

Let's see. There's pricing to cover costs, pricing to meet the market, pricing to close the deal, pricing to gain market share, pricing to meet the numbers, pricing out of desperation to win clients. You have probably used one, if not all, of these strategies at one point or another. And we can find faults with all of them.

So what's the best way to ensure adequate pricing? What about looking at value? Value-based pricing means pricing based on the value you deliver to a customer. For this strategy, though, you need to understand what your customers value in order to set appropriate prices, explains Peter Da Vanzo on <http://SEOBook.com>. "In order to price based on value, you need to understand exactly what your customer values and your point of differentiation to your competitors," he says. "Your value proposition combined with your price point must be differentiated. After all, it would be difficult to price at \$500 if your competitors were pricing at \$300, and both provide the same value to the customer."

But what if you're selling the same stuff as everyone else in your region? "This type of environment works well for big players who can compete on price when selling commodity items, yet still make money off thin margins and big volume," Da Vanzo explains. "But low-volume competitors would be wise to consider a shift of focus to value-added services, such as higher service levels, if they can't compete on price."

I know there are things that I will spend extra money on because they are higher value. I can think of an iPhone case that's indestructible that helps my phone survive during the many times I drop it or my kids drop it. For me, that's worth the extra money.

If you can shift the question of price to that of value, maybe you can come to a price that makes the most sense for you and your customers in your unique market.

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