The Pricing Strategy That Made Us 30% More Money IN JUST ONE WEEK!

eCommerceFuel
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The eCommerce pricing strategy I'm about to share has been a massive game-changer for my store.

In my second year in business, it produced enough extra income to hire my first full-time employee so I could work on higher-level tasks and freely travel for months at a time. More recently, it again significantly boosted the profitability of my store, Right Channel Radios.

Both times, the strategy has taken less than a week to implement. And both times, it increased the overall profitability of my business by right around 30%. So what is this wonder strategy?

Here it is: strategically raising your prices.

Product pricing can be the most powerful tool in your arsenal when it comes to improving your bottom line. While tactics like SEO and conversion optimization are expensive and can take months (or years even) to implement well, you can adjust your prices and measure the result on your bottom line almost instantly. It's an incredibly powerful lever that we as business owners don't experiment with enough.

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Following is my 4 step guide to conducting your own price experiment. If you're anything like me, you'll be able to collect a good chunk of unrealized profits that you've previously been leaving on the table.
Step 1: Identify Your Top Selling Products

If you're an eCommerce company with just a couple of SKUs, this part will be easy. But unfortunately many stores have hundreds or thousands of products. Trying to intelligently run a price test on such a large number of products can be a nightmare.

Instead, pull an 80/20 maneuver and focus in on your 25-50 most popular products. For most stores, this should represent roughly 50% or more of your revenue. Optimizing pricing on these items will give you the most bang for your buck from a time invested perspective.

The best place to do this is Google Analytics. Go to the Conversions -> eCommerce -> Product Performance page and you'll get a nicely formatted report of your top selling items, both from a revenue and a QTY perspective.

Step 2: Raise Your Prices

Step #2 might be the hardest: actually taking the physical step to raise your prices. I think in all entrepreneurs, there's a deep-seeded fear that if we raise our prices customers will abandon us in droves, our company will collapse and we'll be destined to a life of panhandling.

This is a totally normal fear, but completely irrational. In a worst-case scenario (assuming you don't pull a Netflix and really bungle things up), you'll have a short period of sub-optimal profits. If the experiment doesn't work out after this, you can revert to your old pricing and, almost certainly, be right back where you started.

You’re risking a few weeks/months of slightly lower net income in exchange for an extended future of higher profitability. In almost all cases, it's a good bet to make.

Now that you're emotionally pumped up to make the change, here's how to do it:

First, make sure to record all your legacy pricing before you go in and change everything up. It's always good to have a backup, and will come in handy if you do need to revert your pricing if the experiment doesn't work. I've found the easiest way to do this is by exporting a .csv file of all your products. If you're on Shopify or Magento, both offer the ability to do this.

Next, dive into your top products and start increasing prices. This is as much an art as a science, but here are a few rules:
Think Incrementally

I’ve found raising prices by 5% to 15%ish is a good rule of thumb for bumping up pricing. You want something that will make a difference on your profitability, but you also don’t want to potentially start gauging customers or radically changing how you’re positioned or perceived in the market. Easy does it.

Be More Aggressive With Cheaper Item

On a percentage basis, get more aggressive raising prices on cheaper items as the absolute increase in terms of dollars is less noticeable. A 50% increase on a $10 item takes it from $10 to $15 – in nominal terms, the extra $5 often isn’t a deal breaker. However, try raising pricing on a $100 product by 50% and your customers will be much less likely to continue buying.

Understand Where You’re At In the Market

This is where the art of pricing comes into play. If you’ve got a gorgeous, incredibly well done website and are currently below market pricing on most of your items you can afford to bump pricing a bit more aggressively. However, if you’re still rocking that Zencart website theme from 2006 and are priced right at the top of the market you may need to temper your hikes.

Spend some time looking at how much the products are selling for on other niche websites, and also be honest with yourself how professional and trusted your own website is.

Re-Investigate Your Product Pricing

While I’m sure you’re top-notch at keeping on top of supplier price increases, I tend to miss them from time to time. I’ll be going through an invoice and realize we’ve been making a scant 5% margin on a product for months due to our failing to increase our pricing when costs went up.

There’s not better time than during your pricing experiment to look into product costs. In fact, I’d recommend having a spreadsheet that lists three columns: your current price, your cost, and the new price. Seeing all of these items side-by-side will be really helpful as you’re coming up with a new price and will ensure you’re not selling too close to cost.
Consider Amazon, But Don’t Let Them Scare You

Amazon is going to be a pig to compete with on price, and there's a good chance that even before your price hikes you'll be charging more than them. So does that mean you should give up? Heck no. Just keep these things in mind.

The cheaper the items, the less important it is that you need to match Amazon’s price. This is especially true if the product details offered on Amazon.com are scarce. This is where having a great page with amazing product videos can help you get away with charging a few dollars more.

Also, look to see if the products are Prime eligible and how many reviews they have. If there are few review and customers aren't able to get it shipped for free in 24 hours (gasp!), you've got more room to charge a bit more as the Amazon alternative isn't quite as seductive.

Using Comparable Test Periods

You should easily be able to complete all of the research and execute on the implementation in under a week, if not a day or two. Once you've got everything set update your pricing on your live store to start the experiment.

While not required, I like to start my experiments on or near the beginning of a calendar month. This will line up your experiment data with your monthly financial statements for easy comparison. You can also control for (at least a little bit) monthly variations from week to week like people getting paid, being more likely to shop at certain times, etc.

Step 3: Understand What We’re Optimizing For

The hardest part of running a pricing experiment is figuring out what to optimize for, and trying to control for the myriad of moving parts, variables and changing conditions.

You definitely don't want to optimize for revenue. With a price increase, your revenue will almost certainly decrease as you'll turn off highly price sensitive shoppers. So you should optimize for avg. profit / order, right?

"The hardest part of running a pricing experiment is figuring out what to optimize for."
Nope. Hypothetically, your avg. profit / order could skyrocket by 50%. But if your volume of orders dries up by 90% due to the prices increase, you'll be making far less than you did before.

Then there's the issue of traffic. Let's say your profitability does increase month-over-month. If you're optimizing for one metric, how do you know if this was due to a brilliant new pricing strategy or just because you had a bunch more people come to your site? In a situation like this, you potentially could have made more money with your old pricing – but the difference was offset by the larger volume of customers.

It's a hard question, and there's no perfect answer. But the one metric I've settled on to optimize around is profit / visitor.

**Optimizing for Profit / Visitor**

I love this metric because it accounts for so many of the variables built-in to a pricing experiment. It factors in differences in traffic that can skew your results. It accounts for the decrease in conversion due to your prices hike, but also considers the increase in profit you're making from the higher pricing. And it's really, really easy to calculate.

It's not perfect as I'll discuss below, but it's the best metric I've come up with so far. In fact, I think you can make a good case that it should be the #1 metric store owners should focus on compared to revenue, conversion rate, traffic or any of the others big metrics than often grab our attention. But I'll save that tirade for another blog post.

To calculate “profit per visitor” simply take the # of site visitors for your test period divided by your total profit for that period. So let's say we had 50,000 visitors and we made $10,000 in profit. Our calculation would look like this:

$10,000 (Profit) / 50,000 (Visitors) = $0.20 profit/visitor

You can now calculate this metric for your control and test periods and use the comparison to judge your experiment. More on this below.

**Optional Tactic: Individual Order Audits**

While not mandatory, I'd also recommend for at least a portion of your test period doing individual order profitability audits. Again, I know you dear reader are incredibly disciplined and may not be able to relate. But sadly I can often go months without realizing major pricing, shipping or order processing trends that are hurting our gross margin. Doing a daily order audit can help spot these trends.
In my most recent pricing experiment, I had one of our VAs put together a daily spreadsheet of all orders that listed revenues, costs of good sold, total profit and gross margin. It also split out product costs and revenue costs so I could see if low margin orders were due to product cost issues or shipping overages.

For 1-2 weeks, I reviewed this daily and caught dozens of things that were causing us to bleed money. From less popular products were were pricing too low to shipping with sub-par carriers, I made a number of changes that will save us thousands of dollars this year.

You can see (and steal) the spreadsheet I used to do my order profitability audit right here. To get your own editable version, go to “File – > Make a Copy” in Google Docs or download it as an Excel file.

Step 4: Measure Your Results

A large disclaimer: strict scientific folk and those obsessed with controlling for all possible variables will go into convulsions at this point. Given pricing experiments have so many moving parts, there's a bit of a judgement call in deciding if your experiment was a success. So this is by no means a foolproof way to decide.

But the alternative is getting caught trying to account for the dozens of potential variables, falling into an over-analysis trap and doing nothing. So here's the imperfect (but realistic) way to determine the outcome of your experiment.

The first thing to do is to create your baseline, which you likely have already done. Calculate the profit/visitor for your control month – ideally the full month before your changed your pricing. Next, calculate the profit/visitor for the experiment period – again, ideally the calendar month right after your control.

Comparing these two numbers should give you a good sense of how the experiment went.

Hopefully, it's a no-brainer. If your control month profitability was $0.20 / visitor and under your new pricing period it is $0.30 / visitor, you should be jumping for joy. With a 50% increase in profitability, you can be fairly sure it was a success despite any variables you didn't completely control for. At this point, I'd fee comfortable permanently leaving the pricing in place.

It's a bit trickier if your difference is smaller, say 10%. In that case, I'd definitely continue to test but would want to see a 2-3 month track record of that 10% improvement.
If your business is highly seasonal, you should try to account for that when comparing periods. Let's say historically your conversion rate between your control month and your test month is 15% higher. When I used to sell TrollingMotors.net (very seasonal in the Spring and Summer months), this was often the case.

For this scenario, you'd want to adjust the profitability / visitor metric by the amount of the boost in conversion rate to put your control month and test month on equal footing. Again, it's not perfect, but it should get you most of the way there.

At this point, hopefully you've managed to score yourself an extra boost to profitability. If so, congratulations! You've just achieved something with a week's or less worth of work that would have taken months and thousands of dollars to do with SEO or CRO.

**Exceptions and Caveats**

There are exceptions and caveats to this strategy I should mention before I get eviscerated in the comments for over simplifying things. Specifically, they are:

**Most Impactful with Smaller Margins**

If you run a business with smaller margins, you absolutely need to be doing this. The small increases to customer prices can have an abnormally large impact on your bottom line. Example: if you raise your product prices by 5% with 10% gross margins, your bottom line would increase by 50% assuming no drop off in conversion. That's massive.

However, the bigger your margins are the less impactful this strategy becomes. It's definitely still important and can make a difference, but it will be more powerful for businesses with smaller margins.

**Unique Beasts: MAP Pricing & High Priced Items**

Before selling the company, I use to sell trolling motors at TrollingMotors.net. The motors we sold were high-ticket items ($1,000ish) and most of them had strict MAP pricing.

With fresh memories of my first successful price increase, we ran an experiment on our trolling motors and raised prices roughly 5% across the board. With smaller margins in the 10% range (as I discussed here in the sale post), it had the potential to make a massive improvement to our profitability.

Instead, the opposite happened. Sales dried up and our profit/visitor plunged. Why?

"People shopping for big-ticket items are uber price sensitive."
What we didn’t account for was that people shopping for big-ticket items are uber price sensitive. They’ll spend days research a big purchase and often go with the cheapest vendor, even if it’s just a 1% or 2% difference. Higher pricing works much better on the add-on items and accessories that people are much less likely to comparison shop for.

Also, in our case with MAP pricing customers saw one similar price at dozens of retailers (say $1,000) and saw the product priced higher on our site ($1,050). The disconnect from the otherwise universal price gave people pause.

The lesson? Be careful when it comes to non-proprietary high ticket products and MAP items. It’s a different ballgame.

**Lifetime Value Considerations**

My approach to maximizing profitability per visitor doesn’t take into account the lifetime value of a customer (LTV). If you have a business with a large return customer rate (lucky you!) and use effective loss-leaders to get customers in the door this strategy may not be ideal for your business model.

**Advertising Spend**

If you dramatically change the amount you’re spending on advertising from your control to your experiment month, you run the risk of skewing the results of your pricing experiment. Ideally, leave your advertising campaigns alone so you get as close as possible to the same CPA (cost per acquisition) and traffic in both months. Otherwise, a new traffic source that converts or costs a different amount could skew your results.

**Sometimes Lower Prices are What’s Needed**

In my experience, a price increase will do a business good much more often than a price decrease. But there are definitely times when lowering prices can be the right move. If you’re priced at the top of – or even far above the market – a price decline could be what’s needed to maximize your profit / visitor. Use the same approach outlined about to run your experiment, but just lower prices incrementally instead of increasing them.
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Hopefully this has inspired you to run your own pricing experiment! If you do, please let me know how it goes in the comments as I’d love to hear how it impacted your business and life.

If you're an eCommerceFuel member, check out these related discussions in the forum on how pricing affects LTV as well as a detailed discussion between myself and other members on the merits and shortfalls of the profit / visitor metric.

Not a member? If you're a six or seven figure store owner we'd love to have you. Learn more about the eCommerceFuel community and apply for membership right here. I’d love to see you on the inside.