

12 Price Structures You Can Use To Maximize Sales

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Updated August 16, 2024

Price structure can be part of a sales and marketing strategy involving a product or service. Price structure often involves finding a price point to maximize sales or appeal to a target demographic group. If you understand price structure, you can more effectively market a product and develop pricing to maximize sales. In this article, we discuss what price structure is, the benefits of it and what potential strategies you can use with it to improve your skills.

What is a price structure?

A price structure is how a company decides how much to charge for goods or services. The structure might include a core level price for the company's products. The strategy might also incorporate discounts, sale prices and tiered pricing for different product levels. You can use various strategies to establish a pricing structure to reach different target markets. For example, if you want to establish your product as a high-end good, it might have a higher price than similar products. In other instances, the focus of a pricing structure might be on affordability and pricing it competitively in the marketplace.

What are the benefits of having a price structure?

Having a price structure can be beneficial because it can:

Convey value

A pricing structure can convey a product's value to customers. If your structure prices the product competitively, you signal to consumers that buying your product is a good deal. A high-priced product can convey to consumers the product is of higher quality than its competitors. In either case, the message you send to consumers promotes your product's value.

Attract customers

You can use a pricing structure to attract customers. If you want to attract a broad range of customers, a low-priced product structure might be effective. Conversely, a slightly higher price structure can allow you to create rebates, sales and discounts while maintaining profitability. The creation of deals within the price structure can help attract customers.

Create tiers

A price structure allows you to create product tiers. Each tier can include products with unique features and prices, and it may have its own group of competitive products. The tiers also allow you to target different demographics and market to their niches. For example, automotive makers often have different models of cars with various price points. As people make more money, they might advance up the model line by buying more expensive cars that reflect their economic status.

Establish exclusivity

Price structures can allow you to establish product exclusivity. Part of the allure of a high-priced product is that it's hard to get. Not everyone can afford the product, and by attaining it, you can achieve a certain status level. A price structure often is part of such a marketing strategy because you can purposefully price a large segment of the population out as potential buyers.

Align marketing

A price structure can help align your sales strategy and marketing. Price structure allows you to send a message to consumers about the kind of product you offer and about your company. Marketing can help define your brand, and price structure is part of the same process. A sales team that understands the price structure strategy can align its tactics to match company marketing and pricing.

12 types of price structures

Here are some of the price structures you can use:

1. Flat rate

Businesses that provide a service often use a flat-rate price structure. A plumber or mechanic might charge a flat hourly rate regardless of the work they perform. An attorney also might charge a flat hourly rate or charge a fee based on the service they provide. For example, the attorney might charge a flat fee of \$500 to complete legal documents related to a real estate transaction.

2. Tiered pricing

Companies often use tiered pricing structures to differentiate levels of the same product type. A tiered pricing structure can suggest to consumers that the products become better or have more features as the prices rise, and some tiers might involve a better consumer price. For example, you might have one price point for a streaming service that includes commercials, but you can have the same service with no commercials at a

slightly higher price. Airlines often employ tier pricing in separating seating between first class and business class.

3. Pay-per-use

Another potential price structure is pay-per-use, which charges customers based on how much they use a product. A utility company often employs a pay-per-use model, in which the amount customers owe depends on how much gas or electricity they use. Health insurance companies also employ a pay-per-use model, and they charge people deductibles to use aspects of their health insurance.

4. Accessory pricing

An accessory pricing model often involves setting a low price for a core product. The price for the main product might not result in a profit, but the company expects to make more money on replaceable accessory items the product needs. If you buy a printer, the company that sells you the printer also sells ink. The printer repeatedly runs out of ink, and the company can receive a consistent revenue stream from the ink by pricing its printers low and getting them into homes or businesses.

5. Penetration pricing

The goal of the penetration pricing structure is to gain market share. The company might undercut others in the market, taking a temporary loss to build market share. Once it becomes established in the industry, the company can begin raising prices.

6. Gradual reduction

Companies sometimes employ a price structure if they're anticipating high demand for a product. The company might debut a product at a relatively high price point knowing there's a lot of demand and then gradually reduce it based on various factors, including new competitors. In some instances, a company begins with a higher price point to manage customer expectations. As the price gradually comes down, consumers perceive the lower price as a deal.

7. Bundle pricing

A bundle pricing structure involves mixing products with different price points. Separately, the two products might have a higher price point than the bundled price. The goal is to increase sales and expose consumers to more of the company's products. It also can result in higher sales for the company.

8. Psychological pricing

Psychological pricing involves trying to alter a price point that can make a tangible difference in sales, even though the price doesn't change much. For example, stores often advertise goods at \$9.99 instead of \$10. The price difference is small, but stores may believe a consumer is more likely to buy a product cheaper than \$10. Sometimes, companies employ psychological pricing in other ways, such as offering discounts on items to get consumers in a store, where they might buy other higher-priced goods. Companies often use this tactic for seasonal sales or sales the day after a holiday.

9. Premium pricing

Luxury brands often employ a premium pricing structure. The idea of premium pricing is that the consumer receives the highest quality product or consumer experience. For example, a person can get a steak at a diner or an exclusive restaurant. The exclusive restaurant might promise a better cut of meat and dining experience for consumers, which allows it to charge more than the diner.

10. Affordable pricing

Sometimes, the goal of a pricing structure is to provide consumers with the best deal in the marketplace. Companies that embrace an affordable pricing structure try to be the dominant product and make money through volume. An affordable pricing structure might result in a lower margin per sale, but the idea is to dominate market share and benefit from a high volume of sales.

11. Variable pricing

A variable pricing structure allows a company to have no set price. Instead, it negotiates with each customer. A person who provides professional services, such as an architect, might charge a fee based on the size and length of a project. Contractors and construction companies also often negotiate based on the needs of the customer and the complexity of the work. A variable pricing model allows a company to adjust the service it provides and create a custom experience based on the customer's needs and budget.

12. No pricing

Sometimes, a company may offer its service or platform for free. The goal of doing this is to increase users and then find a way to monetize them. Social media platforms allow users to use them for free and then sell advertising or data they collect from user behavior. Video game companies also may offer products for free. Users play the games and can make in-game purchases to enhance their experience.

Prepare for interviews with practice questions and tips

Tips for choosing a pricing structure

Here are some tips you can use to help you decide on a pricing structure:

Understand customers

Understanding the customers you want to reach can help guide you in deciding on a pricing structure. A good idea can be to gather information about your core demographic. You can use surveys or a customer data platform to create profiles of your typical customer. A profile can tell you how much money they earn, their ages and how they make buying decisions.

Research market

Market research can tell you whether a product has broad appeal and the size of the potential market. Market research might involve examining the income levels of people in your area. If you find an auto dealership in a middle-class community, selling expensive luxury vehicles might not be the best fit. Market research can help guide pricing and product decisions.

Evaluate competitors

Evaluating competitors can tell you what the pricing currently is in the marketplace. This can help you position your product and brand where you want to in relation to your competitors. You can use the information to determine whether your price point is too low or high. You also can learn from competitors who might have an innovative pricing structure, or you might see an opportunity to fill a void in the marketplace by implementing a tiered pricing structure.

Understand product value

Understanding the value of your product can help inform your pricing structure strategy. The product's value can tell you how much you can charge to achieve the margin you want from it. The value of the product includes the cost of creating it, the cost of selling it and the value consumers place on it.

Keep pricing simple

Regardless of which pricing structure you choose, it can benefit you to keep it simple. Clearly stating your prices can help avoid communication and encourage customers to purchase your products. Meeting customer expectations also can create a productive sale and increase customer retention, which can lead to more sales in the future.

Be adaptable

A price structure can help you establish a brand and attract the demographic you want for your product, so try to keep your pricing strategy flexible. The market can change, and a good price structure can adapt to remain profitable. For example, if a competitor takes an unexpected action or a new product enters the market, you might adjust your strategy in response. Being able to change your strategy quickly can help you stay competitive and not lose any sales