Starting

Putting a price on your value proposition

By Michelle Hammond
Friday, 27 January 2012

Pricing a product or service can be tricky, particularly if it is new to the market. But as Calvin Ng and John Kolenda found out, you can't afford to get it wrong.

Ng and Kolenda are the founders of 1300 Home Loan, which describes itself as a direct line to Australia's leading independent mortgage brokers.

"The most successful brokers generally operate under their own brand. The problem with being an independent is that you don't get the benefits of scale," Ng says.

"We identified that gap and are using this business to bridge that gap, and give a lot of those brokers the benefit of scale and branding."

Ng says 1300 Home Loan taps into the trend of incorporating company names into phone numbers, enhancing brand recognition.

"There's a trend in advertising towards usage of phone words. Statistics show when you run TV ads and radio ads, recognition rates are much higher," he says.

1300 Home Loan launched to the broker market at the end of 2010, and will launch to the consumer market this month.

Ng says while he is confident the company has assembled "the best group of brokers in terms of things like user experience and volume", a key mistake was the pricing model.

"Looking back, we sold ourselves short… We were a new concept and thought it would be a harder sell," he says.

"We ran a few broker sessions with some pretty senior guys. We ran the concept past them and they said they loved the model but that we should double the price as this would weed out the less experienced brokers."

"They said, 'You have to promise us you'll only let in the cream of the crop'. They wanted to associate themselves with the best."

"We had to really think about it. We did a lot financial remodeling, which doubled our prospective marketing budget, starting in excess of $4 million to over $10 million potentially."

Ng says the company was initially concerned about whether enough brokers would sign up for the service, and how long it would take the company to turn a profit.

"It took longer than expected – it took 12 months to get off the ground but we're so glad we made that change because it completely changed us from a business perspective," he says.

"It made the business a lot more attractive to both sets of customers (brokers and consumers)."

1300 Home Loan now employs around 15 staff, with operations across five states and territories. The company expects to generate in excess of $5 million revenue this year.

Ng says start-ups shouldn't compromise on price if they're confident their offering is unique.

"There are always people chasing price points. If you've got something really innovative that will add value, don't necessarily look for early profits," he says.

"Take your time to ensure pricing reflects your value proposition. If you have a strong value proposition, try not to sacrifice it for early revenue or profit wins."

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"Amazon is a pretty good example – it was a long time before they turned profitable but they knew they would eventually get there. They're now one of the largest retailers in the world."

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