

Ask SCORE

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Set the Right Pricing Strategies for Your Business

Setting the proper prices for your small business products and services can be very tricky. Some business owners think they have it down. But after reviewing costs, expected profit, what competitors charge and what they think customers will pay, it becomes a complex matter.

Pricing too low can cut into your profits, while overpricing can also hurt your business. Finding just the right balance between all of the factors is more art than science.

A common misstep – especially in the early stages of a business – is pricing too low in order to attract customers. While special deals can work in some cases to start the ball rolling, going low is not always the best path. Low prices can draw customers interested only in price. They are the ones most likely to abandon you the moment they find something even lower elsewhere.

Selecting excessively low pricing levels to attract clients is even more dangerous for service businesses. You only have so many hours to sell. Your business cannot make up in volume like a retailer who still profits from lower prices if volume is high enough.

Pricing is partly psychological. You will want to set your levels according to the perception of your product or service “brand”. If you want to be in the premium neighborhood, your pricing can be higher to match an upscale image. Pay attention to price points. They differ widely by product and industry.

Pricing is an ongoing process, so test your pricing periodically. You may need to adapt to changing conditions. Competitor prices, your own costs, customer perceptions and your profit expectations can all change. Or you may want to simply test different pricing levels to see what works best for your business.

Research the norms for your industry, including price ranges across the country if you sell nationwide. You may want to charge more or less depending on your brand positioning. Check your trade association for info; start by checking via Google.

No pricing strategy is complete unless you know with as much precision as possible what your own costs are to deliver the product or service. Do not guess! Price it out to the penny and include all of your overhead costs, both direct and indirect. This application of costs is extremely important. You should know exactly what you have to do in order to earn the profit you want.