

Options when pricing*

Pricing can be a sticky issue, particularly for start-up businesses. You need to find a price that customers will pay while having a profit margin that allows you to cover your overhead costs and make a reasonable profit for your time and risk.

Choosing a pricing strategy

It's worth remembering that most customers can detect if a price is fair or not. They are price-comparing every single day (probably online) and may know the competition pricing better than you.

Here are some general pricing strategies to consider when setting your own prices, and analyzing your competitors.

Cost-plus pricing

Calculate all the costs in producing your product or service including; variable expenses per piece and how much of the overhead expenses you should attribute to each product. Then add in a reasonable profit margin. It's a good idea if you get your accountant to check you haven't missed anything, including that your price includes enough profit to grow your business.

For example if you're selling outdoor furniture, you need to add up all the costs of manufacturing the furniture – raw materials, labor, transportation, packaging etc. – then add your profit margin on top to cover both overheads and your profit.

What cost-plus pricing doesn't do is take into account what the competition is charging or market expectations. Even once you've finished calculating your price, check what everyone else is charging. You could consider raising the price higher if you think there is room to move, or if cost-plus pricing shows that your product is too expensive, it's back to the drawing board to try and lower overhead costs or raw materials to get your price down.

As a rule, always try to charge as much as customers will pay to build a profit buffer and reduce the amount you need to sell to break-even.

Use our Financial Return Calculator to find out how this applies to your business.

Adding a mark-up

A 'mark-up' is when you add a set percentage onto the products you've bought from a supplier (often a manufacturer or wholesaler). A good example is when retailers buy smaller volumes of products and then resell them by adding a set percentage (for example 100%), to determine the retail price.

Hourly rate

If your business is service based you're probably going to charge your customers per hour plus any materials used. You will need to check the market rate as, regardless of what you want to charge, there will be some market pressure to align you to a price bracket. That doesn't mean you can't be five or ten times more expensive per-hour than other businesses; you'll simply need to justify it. As always, if you have customers paying what you believe you're worth, you'll have a stronger business.

A mix margin retail and hourly pricing

Combining margin retail and hourly rate pricing is something you'd do if your business offers both a product and a service. If you're manufacturing entertainment units that are custom-built for a client's home, including installation, you could charge your customer for both the unit and the time it'll take you to install it.

Discounting

Discounting is another common short-term price change, and though it's extremely common, many business advisers will warn against it. This is because most discounting is done aggressively by well established businesses that can take the loss on each sale or pass the loss on to the supplier. Price wars can hurt, but discounting can be an effective way get rid of old stock and bump up sales (short-term only).

Use our Discount Calculator to find out the impact of discounting on your business.

Raising prices

Don't be afraid to raise prices either. Your target market might not be as price sensitive as you think while good customers will appreciate your service and understand the need for a price increase. Explain up front and make it clear why prices have to move. A usual reason is that your own expenses have increased and you have no choice but to pass them on.

A typical scenario is for inflation to creep into a small business's margins quietly over time and erode profits. So, at the very least, make sure you raise prices with the inflation rate.

Understand your positioning

Whether you want to offer top end luxury or cheap and cheerful bargains, you probably know the kind of range you need to price into. But even then, knowing how you compare to the rest of the marketplace takes research and consideration.

No price exists in isolation. It's important to know precisely what your competitors' prices are, new and old. Ideally you should know how those prices have changed over time and what customer perceptions are of the changes.

A lot of purchasing decisions, even between businesses, will be as emotional as they are rational. If customers have historically felt over-charged, that creates a very specific context for your pricing decisions. Of course, you need to compare qualitative as well as quantitative factors. If a competitor is a lot more expensive, but offers additional features and benefits, you need to take that into account.

Next steps

- Calculate exactly what you need to charge to make the profit you want - be sure to compare this pricing to the competition and then decide on where you want to position your pricing within the market.
- Find out which competitor seems to offer the best value and why. Adopt any pricing adjustments that will work in your business.
- Identify if there is a standard market price and if so, whether that market price is ripe for reinvention.
- Use our [location finder](#) to visit a Store, call us on 1-855-278-8988 or [schedule an appointment online](#).

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