

Pricing Products or Services in Business

What price is right?

Lots of things will have an influence on your pricing models, so it's important to understand the factors that can influence the prices you set.

You should put as much research into pricing as possible, as guesswork can be a very expensive mistake! Setting a too-low or too-high price will put severe limits on your business and disrupt your cashflow. Below are some of the established techniques for pricing.

Pricing by competition

In markets where customers are sensitive to price or where there are multiple suppliers offering the same product, you will have narrower margins and price your goods or services by matching them to those offered by your competitors.

Mark-up and margin

You determine your profit either as a percentage of the cost price of the product or service (called mark-up), or of the sale price (margin).

Breakeven

This is where you calculate the point at which your income from sales and your costs are equal (your breakeven point) and add your profit margin to your unit cost to set prices.

Perception

Perception pricing is dictated by the market, and you will need to undertake (or commission) research to gauge the value perception of your product or service. More simply, you ask

potential customers what they think your proposition is worth, and price accordingly.

Rule of thumb

Rule of thumb is a basic formula most suited to businesses whose services require bespoke prices each time, such as builders or plumbers. For example, a plumber might charge twice the cost of the fixings plus labour or twice the cost of the labour plus the fixings, whichever is greater.

Contract

You can negotiate with customers on a contract-by-contract basis, but be wary of pricing yourself too low as you may struggle to fulfil your commitments.

There are many factors to consider when creating your pricing strategy, and you should be flexible and adaptable as the market changes and demand fluctuates. Research your competitors and be realistic, but make re-pricing decisions carefully as they are difficult to recover from if you make a mistake. You can also employ well-known tactics such as loss-leaders, whereby you make a loss in order to attract a customer to another, profitable product.