Business

Setting Your Price

MANYRIVERS

Business Power Tips

This Power Tip has some quick tips to help you build a pricing strategy and find the right price to charge for your products or services.

Setting prices is probably one of the most important business decisions you can make. If you price your product or service too high you risk limiting your business growth. If your prices are too low, you can cause serious problems to your sales and cash flow.

Cost, Price & Value

A good place to start is to make sure you understand the difference between cost, price and value.

- The **cost** of your product is the amount you spend to produce it.
- The **price** is your financial reward for providing the product or service.
- The **value** is what the customer believes the product or service is worth to them.

For example, imagine the cost for a plumber to fix a burst pipe is $5 for travel, $5 f or materials and $30 for labour. The value of this to the customer, who might have water leaking all over the house, is a lot more than just $40. In this case, the plumber could charge $100 for the service.

Watch the full video: www.manyrivers.org.au

What to Consider When Setting a Price

The first part of building a pricing strategy is to find the value of your product or service to your customer.

Think about what benefits your customers can get from using your product or service, what value your customers place on receiving those benefits, and how your customer makes their buying decisions. This can include things like speed of delivery, convenience and the reliability of your product or service.

You want to set your price to reflect the value your product provides, but you also need to make sure that the price covers all your costs and includes a profit margin.

You will need to work out your fixed costs – costs that are always there no matter how much money the business brings in, i.e. rent and salaries. You will also need to work out what your variable costs are. These are costs that rise as your sales increase, such as raw materials, transport and extra labour.

The price you set will need to be higher than the variable costs, and you'll need to include a proportion of the fixed costs in each sale.

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Cost-Plus Pricing & Value-based Pricing

There are two major ways to go about setting the price – cost-plus pricing and value-based pricing.

Cost-plus pricing takes the cost of production and adds the amount you need to make a profit. This is usually a fixed percentage of the cost. It tends to suit businesses that deal in large volumes or if price is a big factor in the customer's decision-making.

The downside is that it doesn't acknowledge your image and market position, and hidden costs or fixed costs can easily be forgotten.

Value-based pricing lets you set the price on what you think the customers will pay. It's based on the benefits your business offers, but it depends on how strongly you can prove to your customers that the product is worth the price.

If the benefits are clearly defined from other similar businesses, it can be a profitable approach, but it can alienate those customers who are largely driven by price.

Your Pricing Strategy

Ask yourself - should I go cost-based or value-based?

To decide, maybe start with researching what similar businesses offer and what they charge. If you ring and ask for a quote you can use this information as a framework. It's probably unwise to set your prices too much higher or too much lower without a good reason. If it's too high, you'll be driving away customers, if it's too low you'll be throwing away profit.

How your product is perceived in the market is also important. A higher price might have people thinking that you are offering a premium product or it might turn away price-conscious customers.

Remember:

Whatever prices you set, make sure they cover all your costs and can deliver a profit.

Many Rivers has a team of business coaches that can discuss some ideas about setting the right price for your product and service so get in touch with us and ask for help.