

## STEP 8

# Get your pricing right

## Pricing is never easy

Pricing your product/service is never an easy task. If you price them too high, customers will not buy them and put you out of business. If you price them too low, you will not make enough profit to stay in business or customers will assume your product/service is poor quality and not buy. Setting the right price for your product/service allows you to maximise profits while maintaining a good relationship with your customers.

It's important to get your pricing right for start-up because you don't want to raise your prices in a couple of months' time. There is always some sort of a backlash when prices go up and the backlash with a new business could be devastating.

## The four basic methods of pricing

There are four basic methods of pricing your product/service, and the best choice depends on your type of business, your product/service, what influences your customers to buy and the nature of your competition. Regardless of what method you use you need to know the market, your customer, the competition, and your costs.

### 1. Cost-plus pricing

This takes the cost of producing your product/service and adds the mark-up amount that you need to make a profit. This is usually a percentage of the cost. It is important to remember that 'cost-plus pricing' ignores value. It is also very easy to overlook hidden costs, so your true profit per sale is often lower than you realise. It is also difficult to keep changing your prices based on fluctuating costs as customers don't like prices that fluctuate wildly.

### 2. Value-based pricing

Value pricing is customer-focused pricing, meaning a business bases their pricing on how much the customer believes a product is worth. You can do a lot to increase the perceived value of your product/service because it's about the customers' total experience (which we discuss in the next step).

### 3. Competition-based pricing

Competition-based pricing means you set the price of a product based on what the competition is charging. This pricing method is normally used by businesses selling similar products, since services can vary from business to business, while the features of a product remain similar. If there is high competition, you can either keep prices low to compete effectively or increase the value you are offering. If competition is low, the prices may be kept higher.

## 4. Charge per hour pricing

This pricing is often used by service-based businesses and independent contractors. When using this method, it's important to factor in all your business costs and a wage for yourself.

*There is another common method of pricing: Thumb-suck pricing. This is when you simply guess and suck your prices out of your thumb. You're not likely to succeed if you choose this option.*

## Three other influences on your pricing

Here are three other influences to take into consideration when pricing your product/service:

### 1. Location

Location can work both ways: A small business in a busy part of a city can charge more than a similar business in a small rural town simply because city people are more likely to be willing and able to pay a higher price. On the other hand, if you are the only business in a small rural town offering an essential product/service you may be able to charge a higher price.

### 2. Reputation

Never underestimate the power of an unbeatable reputation. For example, if you offer a service and are always willing to take on last minute jobs, and not only deliver on time but also deliver excellence, you will be able to charge higher prices.

### 3. The value of your product/service

It's important to know the difference between cost and value, as it can allow you to charge higher prices. This is the difference between cost and value:

- The *cost* of your product/service = the amount you spend to bring it to the customer.
- The *value* of your product/service = what your customer believes the product/service is worth to them.

Here's a simple example: Let's say that the cost for a plumber to fix a burst pipe at a customer's home in the middle of the night is R50 for travel, R100 for the cost of the new pipe and an hour's labour at R300. However, when the plumber is there within minutes and immediately contains the flow of water, the value of the service to the customer – who has water leaking all over the walls, furniture, and carpets – is far greater than the R450 cost, so the plumber may decide to charge a total of R600, which is in line with the value of the service to the customer.

*When it comes to pricing, remember that:*  
*(a) you are in business to make a profit,*  
*(b) it is much easier to lower your prices than to raise them*  
*(c) only thorough research will help you to determine if your pricing is right.*

## Pricing my product/service

1. My pricing method
2. Have I covered all my costs?  
If “No” – what must costs are missing?
3. If ‘per hour’ pricing, have I included decent wages for myself ?  
If “No” – what must I change?
4. Is my pricing reflecting the value of my product/service to customers?  
If “No” – what must I change (pricing/product/service/customer service, etc.) to add the value my customers will want and expect?

5. Will my target customers be willing to pay this price?  
If “No” – what can I do to rectify this?

6. Will I make a good profit?  
If “No” – what must I change in order to raise my profit margins?

7. Am I sure I am not pricing myself out of my market?  
If “No” – what must I change?

8. Am I remaining competitive?  
If “No” – what pricing changes must I make?