

PRICING YOUR PRODUCT OR SERVICE

One of the first questions a potential business owner asks is: “How do I price my products and services?”

The answer is, “There are no easy answers.”

As a first step, you may wish to survey similar types of businesses to see if there’s a model you can follow. If not, you’ll have to develop a pricing structure of your own.

The model we discuss here is a method--a way of thinking that can help guide your pricing decisions.

For virtually all businesses, pricing comes down to a delicate balance among three factors: your internal costs, the demands of your market and your company’s strategic goals. The balance between cost and market is fairly obvious. But the issue of company goals and maintaining the balance among the three is key over the long term.

For instance, two competitors in the same industry with similar products and internal cost structures might have radically different pricing policies depending on corporate goals. A company that is focused on *gaining market share* may cut prices, offer special incentives, bundle their product or service with similar ones or use other non-financial means of attracting customers. If the other company is focused on *short-term profitability*, it may select higher pricing and even sacrifice some sales in order to make fewer, more profitable sales transactions.

Neither strategy is right or wrong. Both are appropriately aligned with the company’s goals.

Once you’ve established a balance in your pricing structure, it may be hard to maintain it. Cost pressures, new or more aggressive competitors, and shifting company priorities may lead to the need to adjust.

What you price your product or service will communicate value, or not, to your customer. If you consistently under-price, you may be losing out on money and/or negatively affecting a customer’s perception of your company.

You should understand that some purchasing decisions are made on factors other than price. For example, one person might drive out of her way to save a nickel on gas, but she will chose not to shop around if she seeks an elegant dining experience. This indicates that the pricing of gasoline has a small range, while elegant dining probably has a wide range of pricing possibilities that will appeal to one or another type of customer.

A new small business will look carefully at the three areas that affect pricing policy and find concrete data, as a first step. Then, a pricing model should be designed and tested. Tests could include a short-term promotion or an expansion into a new market. Many businesses seek advice from key customers at this stage, to help in setting their price structure.