Pricing for Profit

Raise Your Prices

Many business owners balk at the thought of raising their prices and undervalue what they sell as a result. Yet, throughout all of history (and still in many marketplaces), negotiating or haggling price was commonplace. The “one price policy” was introduced with the development of large scale retailing at the end of the 19th century, but it definitely isn’t the best model for small business owners (Kolter, 2007). The issue of how to best price your products and services is complicated by the use of the internet and software designed to give the consumer the lowest price possible at any given moment. So how do we determine the best possible pricing that will benefit the business and not just the customer? As we will discuss further, discounting is just a rush to the bottom of the barrel and will result in business failure. In 30 years in business, I have seen more businesses fail as a result of pricing their products too low than from pricing them too high. That being said, there is a fine balance between pricing your products too low and pricing them too high. Luckily, there are many pricing strategies that entrepreneurs can use to ensure their viability, while filling the needs of their customers.

Everyone Wants Value, Not a Deal

To understand how to best price our products, we need to consider how people buy. Research has shown that consumers make purchase decisions based on their perception of value. This value is determined by the information that customers receive through their senses, advertising, communication, and conversations with families, friends, and coworkers. Fortunately for us, there is research that suggests that consumers cannot recall prices accurately (Dickenson, 1990). If this were not so, it truly would be a case of who could provide the lowest prices. Happily, consumers buy based on more than just price. Most consumers take into consideration the perceived value of the product. We can influence perceived value as business owners by how we reference our selling price. We can do this a number of ways such as how we situate our products in relation to our competition, showcasing our range of offerings. I always suggest that, if possible, business owners have 3 reference points or service offerings: a low, medium, and premium pricing model. Dan Ariely in his book, *Predictably Irrational,* found that giving three options increased revenue by a whopping 43 percent (Ariely, 2008). Too many options can confuse the customer and lead to fewer sales. If your customers are buying based on value, they may automatically choose your premium-priced product, while others will gravitate to your low-priced model. Your sales scripts and pricing model will help you determine the best product to sell to that customer.

Pricing Options

There are a variety of options in how we can price our products. For example, boutiques might pick a higher value-priced model. Some business models demand a discount strategy. For some businesses (including many in manufacturing), it might be a commodity demand pricing model that they follow. In his book *Priced to Sell: A Complete Guide to More Profitable Pricing*, Herman Holtz says that the best price is "the highest one that fits your business's strategy" (Holtz, 1996). In other words, you should be pricing your products to fit the model of your business, which we described in chapter 4. Ideally, you want to differentiate your products and services from your competitors enough to justify different prices. Hopefully, the pricing model that you pick is going to be one that will allow you to be profitable. The problem with most entrepreneurs and business managers is that they only consider one model of pricing. We don't often consider that we may be able to sell the same product or service to a different market or market segment at a different price. This new market might be geographical, socioeconomic, or use-based. When this happens, we can often adapt our pricing to reflect the market conditions in the new opportunity. Sometimes we can use opportunity pricing to increase our margins during times of higher demand. Of course, any time we consider changes in pricing, we need to think about the effect that this will have on our customers. However, if we are short-sighted and fail to consider these different opportunities, our business will lose the potential for this revenue over the long run and rob us of profits.

Pricing Models

There are a number of pricing models that can lead to success in your business. I am going to list some of them here with a short description of each. As you read through the pricing models, consider how you could implement them in your business. Think about how they work and how it might change the way you do things. I can tell you that I have experimented with many of these pricing models. Every business needs a number of pricing strategies to optimize profits and ensure that your customers receive value. Here are some different pricing models to consider:

1. Anchor
2. Auction Type
3. Branding
4. Bundle
5. Commodity
6. Discount
7. Eliminate the Dollar Sign
8. Geographic
9. High/Low
10. Premium
11. Prices Ending with 9
12. Retainer
13. Seasonal
14. Step
15. Subscription
16. Value

Pricing Worksheet

What is holding you back from getting more money from your business?

What is your current pricing model?

Should you have different levels of pricing?

Are there models of pricing that you would like to explore?

List the types of pricing models that you would like to experiment with in some aspect of your business.

How and when are you going to implement pricing changes?