

## 8 Pricing Mistakes Every Business Makes!

Have you ever bought something and thought that there is something not right about the price. Maybe it seemed too cheap or you felt like you were getting ripped off? Pricing is tricky business and a stressor for many business people. Are we too high and scaring away customers? Our competitors are priced lower than us, should we drop our prices to meet them? Won't our customers think that we are expensive if our prices are different? The truth is that there are a number of pricing mistakes that business leaders make over the duration of ownership of their business. I have made many of them over the years and hopefully have learned from some of these mistakes.

1. **Pricing too low!** Many small businesses set pricing policies that are too low. We believe that every customer is looking for the lowest price and as a result, we try to meet these expectations and when we do we are unable to make a profit! To overcome this problem, we need to stop setting prices based solely on cost and start thinking about the value we create for our customers and how much they will be willing to pay for this value and set our prices accordingly.
2. **Not taking all your costs into account!** Often as small business owners we set our prices based on product costs but we don't calculate all our expenses. Have you calculated how much you are spending on freight, marketing, offices overhead, labor, credit card costs or anything else that is contributing to getting that product to the customer? When we take the time to figure out our exact costs we can do a better job of recovering all those and setting prices that are realistic.
3. **Holding Prices the Same for Too Long!** This is a common mistake of many businesses. We set a price for a product and then forget to change that price if the market goes up or down. We need to understand that some markets are static while others can really change quickly. Having frequent regular price changes ensures that our customers understand that the market is fluid and that we are staying current.
4. **Using the Same Margin on All Products or Services-** I got caught on this mistake for a long time until I realized that I had some departments within my business that were not price sensitive. Understanding which areas of our business have different values for different customers or segments of the market, can change the way we price our products and receive our revenue.
5. **Discounts Not Value Added!** So often in business we decide we need to discount a product or service to drive sales. But cutting our prices is giving away the very profit we need to keep our business running and provide wages for our staff and ourselves. A better way to think about this is to determine ways that you can add value. Is there something you have that you can throw in to ensure the sale but that doesn't cost you much or won't cut into your profit. ? If you are a contractor can you offer a second set of eyes to a project or have one of your team do something extra while they are working on the site?
6. **Failure to Understand the Difference Between Markup and Margin.** This is a rookie mistake that I made in my businesses when I started out. I priced everything by a markup, but a 50% margin is different than a 50% markup. A \$20 dollar product with a 50% markup is \$30 while a 50% margin would be \$40. This can be a big difference at the end of the year or if you decide you want to have a "30% Off" sale. With the 50% markup you would end up with \$1 and with 50% margin you would end up with \$15

7. Setting Commissions for our Staff based on Sales and Not Profit! Having a structure where your staff share in the profits of the company can be a great policy for some small businesses. But when we have commissions based strictly on sales, our staff can sometimes find ways to drive sales that don't make any sense to our bottom line.
8. Having a Reactionary Pricing Strategy! How many times have you decided that you needed to change prices ... just because. Without having a strategy for reviewing and pricing your products, you are setting yourself up for misery.

Most small businesses don't think about pricing until it is often too late. Setting a policy for your prices and having a regular review of those prices and strategies can enable you to price for profit and ~~setting~~ set yourself up for success!

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