

Ask SCORE

WHAT TO CONSIDER WHEN SETTING PRICES FOR YOUR NEW BUSINESS, PRODUCT OR SERVICE

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"How much should I charge?" That's one of the toughest questions a small business owner faces. It's true even when you've been running your business for a while, but it's particularly perplexing when you're pivoting to a new line of business – perhaps because of COVID – or launching a new business, product or service.

Setting prices is more of an art than a craft. Large companies spend fortunes on consulting firms that specialize in pricing strategies, so don't be surprised if you have trouble. So how do you know where to set your prices when you've never sold that product or service before?

First, let's look at a few pricing models:

► **Fixed pricing.** You sell your product or service at a set price. You may have sales or discounts, but the price is generally established. The price might be based on:

- Your costs – you figure out your costs and then you set your prices to make a reasonable profit.

- Perceived value – due to other factors, such as your brand, reputation, convenience, quality – you charge more than on just your costs.

► **Hourly pricing.** Typical with professional services and some contractors and trades. With some trades, the pricing might be "time and materials" – adding the cost of materials to the price.

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► **Project pricing.** You negotiate an agreed upon price before start of the work, payment dependent on completion.

► **Dynamic pricing.** The price changes depending on demand. This is now typical in airline prices and, frequently, in sports stadium tickets.

► **Subscription.** Customers pay you an ongoing amount. Almost all digital services are priced this way, but also "memberships" such as gym memberships are subscriptions.

Subscription pricing is widely considered "the holy grail" of pricing since customers have to take action to stop paying you. You should definitely think about how you might use subscription pricing in your small business. A couple of strategies from the subscription method are good to keep in mind regardless of your pricing model:

► **Three pricing levels.** Ever notice how virtually all services have some kind of "basic, standard, premium" levels of service. That's because giving customers three choices is just about right for everyone. Some customers always gravitate to the most expensive, some to the cheapest, and

the majority to the middle. Try this in your business, too. For example, a wedding videographer could offer a "standard" service taking photos at the wedding; "pro" would include post-production editing, and "premium" would include advanced editing and creation of a deluxe wedding album.

► **Free-mium.** You give a small amount of your product or service away to get folks to buy a higher level. This definitely works in software applications and shows up as "sampling" otherwise.

How to decide on a pricing model and what price(s) to set?

► **Do your research.** Know what's happening in your market before you set your initial prices. After all, if the upholstery store across town reupholsters sofas for \$500, it will be tough to charge \$2,000.

► **Offer different price points.** One way to both test the market and reach more customers is to offer different pricing levels. Consider how you can offer "small, medium, large" versions.



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► **Test different prices.** One thing you can do as you first introduce a new product or service is test out some different prices. A good way to do this is online – by placing search or social media ads that are similar except for the price and see what kind of results you get.

Customers will often pay more, for the same or very similar product, depending on a number of factors, including:

► **Brand.** Brands enhance customers' familiarity and comfort level with your products and services. In small businesses, the company's reputation may be thought of as their brand.

► **Convenience.** You can often charge more when you make it more convenient for the customer – better location, delivery, faster service, and so on.

► **Word of mouth.** Prospects trust referrals from people they know. You're far more likely to go to the restaurant, hire the plumber, or download the app that a friend recommends to you.

► **Specialization.** If you are seen as someone with particular expertise or knowledge, you can charge more. Targeting a niche market – such as an industry or demographic group – and learning their specific needs enables you to get higher prices.

Remember, setting prices isn't an exact science. So, don't be surprised if it takes you a while to figure out what's the "just right" amount to charge.

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