Your Price is Right—If You Do Your Homework

“How much should I charge?”

That’s one of the first questions most small business owners ask. And it’s not an easy one to answer. Setting a pricing strategy depends on many factors—the type of product or service you’re offering, your own costs to provide it, your expected profit, your customers’ location, the “going rate” for your industry, and many others.

To start answering that question, I’m going to say that finding just the right balance between all of the factors involved is more art than science. Pricing too low can cut into your profits, while overpricing also can hurt your business.

A common misstep—especially in the early stages of a business—is pricing too low in order to attract customers. While special deals can work in some cases to start the ball rolling, going low is not always the best path. Low prices can draw customers interested only in price. But, I will predict that they are the ones most likely to abandon you the moment they find something even lower elsewhere.

Selecting excessively low pricing levels to attract clients is even more dangerous for service businesses. You only have so many hours to sell. Your business can’t make it up in volume like a retailer who still profits from lower prices if volume is high enough.

Pricing is partly psychological. You will want to set your levels according to the perception of your product or service “brand.” If you want to be in the premium neighborhood, your pricing can be higher to match an upscale image. Pay attention to price points. They differ widely by product and industry.

Pricing is an ongoing process, so test your pricing periodically. You may need to adapt to changing conditions. Competitor prices, your own costs, customer perceptions and your profit expectations can all change. Or you may want to simply test different pricing levels to see what works best for your business.

Research the norms for your industry, including price ranges across the country if you sell nationwide. You may want to charge more or less, depending on your brand positioning.

Make sure you use timely and accurate information to calculate your costs for labor, supplies, and direct and indirect overhead for every product or service you offer. “Guesstimates” are not good enough and may cost you far more than the hour or two of research. Also take into account seasonal fluctuations that might cause short-term increases.

To learn more about pricing, contact SCORE "Counselors to America's Small Business." These volunteer counselors provide free, confidential business counseling as well as training workshops to small business owners. The schedule of SCORE workshops is available through Community Education as well as on this (www.seminnesota.score.org) website.

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