How to Raise Prices Without Losing Customers

Pricing your product or service is always a tough decision for small business CEOs. Furthermore, once established, the raising of your prices is a tougher decision because you are always concerned about “how many customers will I lose”. This situation is ultimately faced many times by a small business owner.

It usually goes this way. You’ve been tracking your small business’s numbers regularly, and you know it's time to raise prices. But how will your customers react? While it's natural to be concerned that a price increase may cost you clients, that doesn't have to be the case.

SCORE and one of its business partners, Canon USA (as you may know, Canon U.S.A., Inc., is a leading provider of consumer, business-to-business, and industrial digital imaging solutions. It has approximately $36 billion in global revenue) did a joint piece on this topic. They came up with five do’s and don’ts to consider that will allow you to raise prices without losing customers. I think they are some great considerations.

**Do study what your competitors are doing.** How have their prices changed in the past few years? If everyone in your industry has been raising prices, customers will be more amenable to the change. If you're the only one doing it, however, you’ll need to offer something unique that your competitors don't.

**Don’t be sneaky.** Retail or restaurant businesses can often raise prices without customers noticing. However, if you own a service business or B2B company, don't try to sneak a price increase into the bill after the fact. Let customers know in advance when you plan to raise your prices. This can actually be a good tactic for retaining customers: Give them the opportunity to stay at the old price for six months or a year if they renew their contract before the price goes up.

**Do explain your reasons.** It's not necessary to go into excruciating detail about your profit margins. Simply share the basics as to why you are raising your prices, with a focus on the benefits to the customer. For example, “In order to provide you better service by offering 24/7 live customer support, we will be raising our monthly subscription rates by 20% beginning in June.”
Don't apologize. If you come across as tentative or nervous about your price increase, customers may try to negotiate. Instead, focus on the benefits to customers that accompany the price increase, such as expanded product offerings or additional services.

Do expect to lose some customers—but expect to gain some, too. Customers who are solely price-focused may stop doing business with you, but are those really the customers you want? Often, small business owners discover that raising prices may attract new, more profitable customers who are willing to pay a higher price for better quality.

Here are some ideas for different ways to structure your price increase in ways that customers will accept.

- **Increase prices by adding fees.** Instead of raising prices for your actual product or service, consider adding fees to cover rising costs. This works best if one specific cost, such as raw materials or transportation, is rising. Just be aware that if those costs go down again, customers will expect the fees to go away, too.

- **Introduce the higher prices in stages.** If you're really worried about losing customers, try raising prices for a small group of clients first to see how they react. If most of them accept it, you can expand the increase to your entire customer base.

- **Keep existing customers at the current price level but charge higher prices for new customers.** Be sure to make existing customers feel special by telling them they’re getting preferential treatment: "Effective January 1, we will be raising our prices. However, because you are a valued longtime customer, your price will remain the same for the next 12 months."

- **Add value.** Create product or service bundles by adding features that don't hurt your profit margins, but make a big impression on the customer. For example, a business that sells consumer electronics could add an extended warranty at no extra charge or offer longer customer support hours. A nail salon could offer every customer a free set of manicure tools that are kept on-site and used only for her.

- **Raise prices on some products or services and not others.** Try raising prices only on your most popular products and services. Since they account for most of your sales, this will have a dramatic effect on your revenues.

- **Create a lesser option for customers who don't want to pay higher prices.** Suppose your lawn-care customers currently get weekly mowing, edging and weeding service for $75 and you want to raise the price to $100. Create a lower-
level service package (mowing, edging and weeding every other week, or weekly mowing and edging with no weeding) for $75.

With careful planning and a tactful approach to informing customers, you’ll discover that a price increase not only boosts your sales, but can also transform your business.

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