

## Pricing your product

Deciding on a pricing strategy for your products or services is one of the most important decisions you will need to make.

The price you charge will need to be high enough to ensure you cover all your costs and operate at a profit. However, the pricing strategy you choose will also be determined by a number of other factors, including the prices your competitors charge, prevailing industry conditions, and whether you plan to position yourself as a value-for-money supplier, a provider of quality goods and services, or somewhere in between.

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### Covering your costs

You will need to make sure you charge enough for your product or service to cover your costs. This includes the amount you spend to produce a product, or provide a service, and a portion of your fixed costs or overheads.

The first step is to determine how much each item costs to produce, or the costs of providing each service. This will include all materials used, shipping or transport costs, salaries and wages, and a portion of your fixed costs, including administrative staff wages, rent, levies, office supplies and utilities accounts.

You will need to ensure you charge more for your product or service than it costs you to supply. Your business can't generate a profit if you sell your products or services below cost. Working out an accurate costing for everything you provide is an essential part of working out the price to charge.

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### Know your market

The next step to deciding on a pricing strategy is to research your market.

You will need to evaluate your customers and potential customers, assess how big your market is, what motivates them to buy, and find out how much they would be willing to pay for a product or service.

Conduct market research within your customer base. Find out what they like about your products and services, where they think you can improve, and if they'd be prepared to pay more if you made a few small improvements.

The number of businesses you are competing against for customers is also important. You will need a good idea of the prices your competitors are charging for similar products and services, and the quality they provide. Research your competitors to enable you to set your prices strategically to meet current market conditions and demands.

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### Analyse your product or service

The uniqueness of your product or service will determine how much you will be able to charge for it. If your customers, or potential customers, have several similar products to choose from, you will need to price your product or service at a similar level to win or keep customers. Simply put, people will not be prepared to pay higher prices if they can pay less for a similar or identical brand.

If you supply a niche product or are able to improve your product or service and show it is better than that offered by competitors, you will be able to charge a higher price.

Where you decide to pitch or position your product or service in the market will play an important role in your pricing strategy. If you plan to position a product as a market leader, you can expect to charge a higher price than you'd charge for a product that you plan to position as value-for-money.

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## Deciding on a price

You will need to consider all the information we've already covered before you decide on a price for your product or service. There are two basic models for arriving at your final selling price.

- **Cost-plus pricing:** This model takes the cost of producing your product or service and adds an amount that you need to make as profit, usually expressed as a percentage of the cost. Cost-plus pricing ignores your business image and market position and is best suited to businesses with a large product range and high sales volumes, or markets where there is a lot of price competition.
- **Value-based pricing:** This model takes the price you believe customers will pay for a product or service – based on the perceived value of your service or product – into account when setting a price. Value-based pricing is suited to products or services where you have a clear advantage over your competitors, such as by being the best value-for-money, having the latest technology, or being eco-friendly. The success of this approach will depend on whether you can prove the strengths or benefits of your product to your customers.

You will also need to bear in mind that the price you charge will often affect the perception customers have of your product or service. In many cases, a higher price is seen to be an indicator of high-quality product, while low prices can raise concerns about the quality and reliability of a product with more discerning buyers.

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## Other strategies to consider

There are a number of short-and long-term strategies to consider before you finalise your price.

- **Price breaks:** It is important to bear the psychological effect of price breaks in mind when pricing. Although there is only 30 cents difference between \$9.90 and \$10.20, customers are more likely to buy a product at \$9.90 (because it is lower than the obvious psychological price break of \$10) and consider it cheap or value-for-money, than they are to buy or perceive value-for-money at \$10.20.
- **Loss leaders:** You might decide to sell one or a few products or services at a low mark up, or even below cost, to attract customers who you expect to buy other, higher value items, to make up for the loss you will carry on these loss leaders. This works best for items that are price sensitive. For example, low prices on basic food items like bread or milk could encourage people to buy from one grocery store over another.
- **Discounting:** Offering discounts can be an effective way to increase sales, but it needs to be planned. If you offer a continual string of discounts, customers will question your normal prices. There are a number of discounts you can consider offering, including old stock clearances, bulk-order discounts, or multiple purchases of the same product.
- **Multiple pricing:** One way to increase the volume of your sales is to offer one item at \$1 but three of the same item for \$2. This is a popular strategy for sales and discounts and often entices customers to grab a bargain.
- **Pricing below the competition:** This works well if you have a high volume of sales to cover a low mark up. It also works well if you're able to buy in bulk or negotiate good prices from suppliers.
- **Prestige pricing:** Prestige pricing can work for well-known brands, or products or services where location or exclusivity adds to the perceived value of the product or service.

Whatever your final strategy, you should price each product or service individually after:

- Evaluating your market
- Knowing where you want to position your product, and
- Working out what it costs you to provide the service or product.