

Pricing Strategy – simple guide

Setting the right price for a product or service is one of the most critical decisions in business. A wrong price can either scare customers away if it's too high or eat into your profits if it's too low. The goal is to find a price that is fair to your customers, sustainable for your business, and competitive in the market.

Why the Right Price Matters

Imagine you bake cakes at home. If you sell them for less than what it costs you to buy flour, sugar, and eggs, you're working at a loss. On the other hand, if you try to charge ten times more than the bakery down the street, customers will choose the bakery instead. Pricing is not just about covering costs; it's about striking a balance between value and market expectations.

Step-by-Step Approach to Setting a Price

1. Calculate Your Costs

You first need to determine the cost of producing your product or service. This includes:

- **Direct costs:** materials, ingredients, tools, labor.
- **Indirect costs:** rent, electricity, marketing, insurance.

Example: If it costs you 5 CHF in ingredients and 2 CHF in electricity and packaging to bake a cake, your total cost per cake is 7 CHF.

2. Add Your Desired Profit

You want to earn more than just covering costs. Decide how much profit you would like to make per unit.

Example: If you want to earn 3 CHF on each cake, the selling price should be 7 CHF + 3 CHF = 10 CHF.

3. Check the Market Price

See what others are charging for similar products or services. If bakeries nearby charge 12 CHF for a cake, you know that 10 CHF is reasonable, but you might even have room to raise it slightly.

4. Think About Value for the Customer

Customers don't only buy a product—they buy what it means to them. Sometimes, they're willing to pay more because of added value such as convenience, quality, or special designs.

Example: If your cakes are homemade with organic ingredients, some people might be willing to pay 14 CHF instead of 10 CHF.

5. Test and Adjust

Pricing should not be fixed forever. Test your price, watch how customers react, and be ready to adjust. If nobody buys, maybe it's too high. If everybody buys quickly, you might be able to charge a bit more.

6. Consider the Bigger Strategy

- Do you want to attract many customers with lower prices (volume strategy)?
- Or do you want to target fewer customers at a higher price by offering a premium product (premium strategy)?

This decision affects not only your price but also your entire business positioning.

Everyday Life Example

Think of a haircut. A barber has costs: rent for the shop, scissors, shampoo, and wages. They add a profit margin and check what other barbers in the area charge. If an average cut costs 30 CHF and they are located in a busy area with high rent, they might set their price at 35 CHF because customers are willing to pay for convenience. If they are in a small town, maybe 25 CHF is more reasonable.

Key Takeaways

- Always know your costs.

- Add a fair profit margin.
- Compare with the market.
- Reflect the value you provide.
- Test, learn, and adjust.

In short: *The right price works for your customers, keeps you in business, and positions you correctly in the market.*

Additional Information: Key Pricing Methods

Cost-Based Pricing

This approach starts with the actual costs of creating and delivering your product or service, then adds a markup for profit.

- **How it works:** Add up all costs (materials, labor, rent, marketing, etc.) and add a profit margin.
- **Example:** Baking a loaf of bread costs 2 CHF for ingredients and 1 CHF in electricity and packaging (total cost: 3 CHF). Adding a 2 CHF profit margin leads to a final price of 5 CHF.

Value-Based Pricing

Here, the price is based on what customers believe the product or service is worth, not just its cost.

- **How it works:** Focus on the value or benefits the customer perceives. If you offer something unique or of high quality, people may be willing to pay more.
- **Example:** A dog walker who sends daily photo updates can charge more than basic dog walkers because pet owners see more value in the extra care.

Market-Based Pricing

Market-based pricing is determined by examining what competitors charge for similar offerings and adjusting it based on your product's unique features or brand position.

- **How it works:** Research your competitors' prices and decide if you want to match, undercut, or charge a premium based on your product's strengths and target customers.
- **Example:** If most barbers in your area charge 30 CHF for a haircut and you use premium products and offer top-notch service, you might set your price at 35 CHF.

Step-by-Step Pricing Process

1. Calculate Total Costs (Cost-Based)

- List all costs, direct (materials, labor) and indirect (rent, utilities, marketing).
- Add them up for a per-unit or per-service cost.

2. Decide Desired Profit Margin

- Select a markup (e.g., 20-30%) based on industry norms and business objectives.

3. Research the Market (Market-Based)

- Look at what competitors charge for similar goods or services.
- Consider their strengths and weaknesses versus yours.

4. Assess Customer Value (Value-Based)

- Understand what makes your offer special.
- Conduct customer interviews or review their feedback to identify which features or benefits are most important to them.

5. Test and Adjust

- Start with your calculated price.
- Gather feedback, track sales, and adjust prices as needed to optimize both sales and profit.

Example: Home Cleaning Service

1. **Calculate costs:** Supplies (5 CHF per job), transport (3 CHF), labor (20 CHF/hour, 2 hours/job = 40 CHF). Total: 48 CHF/job.
2. **Add profit margin:** 20% of 48 CHF = 9.6 CHF profit. Target price: 57.6 CHF.
3. **Check the market:** Similar services in your area charge 55–65 CHF for similar jobs.
4. **Assess value:** If you use eco-friendly supplies, advertise this to increase your value.
5. **Set price:** Launch at 58 CHF. After a month, if new customers say, "great value for eco-friendly cleaning," keep the price or try a slight increase.

Practical Tips

- Don't ignore hidden or "unexpected" costs (e.g., insurance, equipment maintenance).
- Value can be boosted by service, branding, or extra features—not just product quality.
- Pricing can be revisited and adjusted as the business evolves or costs change.

Setting the right price is not just a one-time task but an ongoing part of managing a successful business and giving customers a good reason to choose your products or services.

If you would like more details or wish to discuss further, we are always available to assist you. Please connect with us:

<https://www.elev8strategicfinance.com/contact>