How to Raise Your Fees and Thrill Your Customers

By Caroline Jordan, MBA

Think the best way to get more customers is to have the lowest prices in town? Think again. Think the best way to create a successful business is to try to appeal to everyone? Wrong again.

The only good thing about having the lowest prices and trying to appeal to everyone is that you'll fail quickly and be out of your misery.

This is a really hard concept for many business owners to come to grips with. Small business owners can really struggle with pricing. There are tons of different approaches to pricing and that in itself creates plenty of confusion. It's been my experience that most small business owners tend to undercharge for their services and products.

Feelings, Nothing More Than Feelings

The bottom line is this. People buy for emotional reasons—not price. People buy from you because you solve a problem for them—not price. Yes, for some people price is the deciding factor for purely economic reasons. But how many times have you seen someone skimp on necessary car maintenance but spend big bucks on a car stereo? People will pay ridiculous amounts of money if they perceive high value. Visit an antique shop—why would you pay tons of money for an Early American kitchen chair when you can get a brand new chair for $30?

Listen, I've been watching the human species for decades and I've come to a conclusion—we're a really weird group. We're gifted with a magnificent intellect, the ability to reason and approach things in a logical manner. And yet, we make our decisions based on emotion! How else can you explain someone with 350 pairs of shoes or 35 antique cars or every Barbie doll ever made? We're just a bizarre species! Once you realize that, it makes raising your prices easier!

Of course, it's a little more complicated than that…so let's talk about some pricing strategies.

Cost + markup

If you make a product, you can price it by taking what it costs you to make it—materials, labor, and overhead and add on a markup percent for profit. If you deliver a service, you can price the service by taking what it cost to deliver the service—labor, overhead and add on a markup percent for profit. If the costs increase, you can raise your prices or reduce what you get for profit. That's a very common approach to pricing. The profit markup can be very small or it can be very large based on other factors.

Competitive pricing

Survey your competitors to find out what they're charging then charge a similar amount.

Lowest Cost Provider

“We have the lowest prices in town” is often followed by the “going out of business” sale pricing. Unless you have Wal-Mart’s wallet, systems, and bargaining power, this is a recipe for poverty.

Value Provided

Your pricing in this method is based on the value that your customer perceives you provide them. This is a popular pricing strategy. In my opinion it has a major flaw. Let’s say your beloved child has cancer. What value do you place on the doctors, nurses, therapists, etc. who provide care? All the money in the world is not enough to compensate for the value of a cure for your child. The value you perceive and the amount of money you can pay are often widely divergent. In the consulting arm of my business, my customers often tell me that the value I bring to their businesses far outweighs the amount of money they can afford to pay me.

The “What do I need to make?” pricing model

If you need $40,000 to pay your own bills, can your business generate enough sales to net you that amount? How can you structure your pricing to make that happen? This is a more realistic approach to pricing. If you start out with a baseline—a goal—and work backwards you often get a better feel for what you have to charge to stay in business. This is the same as breakeven which we talk about in a different section of the manual.

The downside of this approach is that it limits your income—which means that instead of achieving prosperity from owning a business, you’re only creating a job for yourself.

The “What do I want to make?” pricing model

Now we’re getting somewhere. Self employment should do more than create a job for you. It should build value. Most small business owners who survive long enough to want to sell their businesses are dismayed to find that the business has little value. No assets. No transferable brand. No saleable systems. Not retirement. It’s merely provided them with a living for a time.

This pricing model takes a long term view of your business. Where do you want to be in 5 years, 10 years, 30 years? What are the opportunity costs involved? If your business takes three years before it supports you, what is the cost to you in salary or wages that you could have made working for someone else? Pride of ownership is a wonderful thing, but find ways to make what you own more valuable in the long run.

Knowing where you want to get to gives you the opportunity to work backwards to see how you can get there.

Personal Pricing Strategies

One of my colleagues has a pricing model that she finds works very well for her. She talks to her potential clients about a project. Then, she sits down and thinks about

the project, what it will entail in terms of time and energy. She decides on a price, takes a deep breath, and adds a thousand dollars to it. Only then does she call the client with the price. She knows that if she doesn't do this she will under price her services. (And yes, she's very busy and successful.)

Another colleague changed her pricing strategy after giving birth to her first child. She looked at her baby and said, "What is it worth to me to miss time with my baby?" She prices accordingly.

Another colleague looks at each customer and decides what she will charge based on the level of difficulty she feels the customer will present. Some customers are so difficult to work with that no amount of money in the world would compensate for the wear and tear. Other customers make her feel that she'd work for them for free (she doesn't) because they're so great.

Another business takes the approach that they're the best at what they do so they charge premium prices. They back that up with great results and continual focus on what makes them better than the rest.

In short, there are any number of pricing strategies you can use in your business and any number of ways to justify those prices in the market place.

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