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PRICING YOUR SERVICE
by Lois M. Gotwals, Extension Specialist
Consumer Sciences and Retailing

Every time you establish a price it must include the cost of your knowledge or education, skill, ideas, experience, time, contacts, overhead, and materials. Advice and services received are difficult to measure because they are intangible. When you price a service, you do not have a product that can be handled, touched, eaten, or compared with that of your competition.

How Much Should You Charge?
How would you react if you overheard someone make the following remarks about your business? Discuss these statements with your friends, family, and business associates to see if your reactions are similar to theirs.

1. I like doing business with her/him because the work is ready on time.
2. She/he has the highest rate in town.
3. How can she/he afford to charge such low prices?
4. I do business with her/him because she/he knows what I like (what I need done or how and when to do the job) and their cost must be comparable to the competition.
5. She/he charges so low that the quality must not be good.

A lot of people believe that you get what you pay for; therefore, they expect to pay for quality. This is especially true for young adults because they are not interested in shopping for the lowest price as were their parents. Instead they are interested in quality and service at a fair price.

Because customers are busy, they expect business operators to know their business and to make doing business as convenient as possible. They expect to have appointments made in advance and kept, to have work finished at the appointed time, to have appointments made at their convenience, and to pay a bit more for a product or service which offers these conveniences.

They are also savvy about overhead. They understand that a business in the home may cost less to operate than one in a business storefront. However, if your business depends on people seeing your business sign or shop window, the difference in overhead may be offset by increased sales. Some customers will be willing to pay less, to drive for fitting or planning appointments, and to pick up their merchandise. Other customers will pay more to have a business conveniently located. Very few are happy to do business in a messy or shopworn environment—this includes both the inside and outside of your home or business establishment.

Whenever customers are very close on money, they may be willing to put up with some abuse and unpleasant surroundings in order to save a few pennies. However, when they have money to purchase a service, they have a bit of disposable income and are looking for quality and convenience. This is why customers believe that if the price is low, something may be wrong with the product, skill, or service. Once the customer suspects the quality or service of a business, he or she will surely find something wrong.

Therefore . . . if you aren't proud enough to charge enough no one will pay enough

The results will be
- low self-esteem
- depression
- less income or no income
- business failure

Be proud enough to charge enough.

Factors to Consider When Pricing Demand for Your Service
How many people in the market area will be your customers? Give either a percentage or number of customers. It will help if you can list actual or possible customers by name.

Will they give you repeat business, or how much business can you expect from each customer per year?
Are you aiming to sell lots of items which are low priced or a few quality items at high prices? High profit and high volume are difficult to obtain and often unrealistic, so it is better to aim for high profits and low volume or low profit and high volume. The business can go under when the owner reaps low profits and low volume.

What is the nature of your future market? Do you expect it to grow as more and more people want your service? Do you expect the number of people and the need for your service to remain about the same? Do you see fewer people needing your service in the future or will they need your service less often?

Is the price for your service elastic and very sensitive to price changes? If you raise your prices a bit, will the price increase greatly affect the number of sales?

Who are your customers? What are their ages and incomes, where do they live, how many people are in their families, and what types of jobs do they hold?

Assess Your Competition

List your competition by name, if possible.

How is their service different? What is unique or better about your business?

How much does the competition charge? If you don’t know what they charge, ask your friends how much they pay for a similar service. Sometimes you can ask your local competitors, but often you must visit similar businesses in neighboring communities or market areas and ask about their charges. If there is a trade association or supplier, they may be able to help you determine what similar businesses are charging.

Generally, your competition sets the price unless you can prove that your service is better or that you provide more service. If you charge more than the competition, be prepared to tell the customer why. If you charge less, make the reasons known because the customer will begin to suspect the quality of your service.

What Are Your Sales and Profit Goals?

Set a dollar amount you want to earn this year. In two years? In five years? If you are a new business operator, remember that you may not make much or any profit for the first six months or the first few years. This will depend on the type of business you establish.

Pricing Methods

Full cost pricing. Determine your costs and set prices so they include your expected profit. Some craft items can be priced by figuring the cost of materials and multiplying this cost by 3.

Hourly rate. You arbitrarily set the rate per hour, and you record the time spent on each operation. This method is usable for pricing com-
plex items or tasks which you have not previously performed.

Going rate. You set your rate similar to that of the competition or to that of a comparable manufactured item.

If you are a new business it might be wise to figure a price for your service following all of the above methods. Then you can compare and decide which method to follow. When starting out, do not set your prices low and expect to raise them in a few months. It may be best to give a discount for new customers or for the first few months until you are established. These same types of discounts can be given during any slow period to stimulate sales.

Established businesses need to review their price structure every six to eight months, and adjust it when necessary. They also need to record monthly sales to determine peak and slow periods so that they can determine when sales are necessary.

Helpful Hints

Avoid giving a final quote over the phone even if you’re stating base rates, because words carry different meanings. Customers usually want the base rate even if the project requires more of your time and skill.

Charge for all time spent with your customer and on the project including the initial meeting with the customer, planning or making job estimates, billing, and delivery or pick-up.

Always charge for special services, including shopping for supplies, delivery, last minute and rush jobs.

Some customers will question your rates and indicate that they can buy elsewhere for less money. Emphasize the things that are special about your service and your quality. Keep your cool.

Don’t become upset if you don’t get all of your customer’s business, because if you lose your cool, you may not get any of his business.

REMEMBER, before you price

• Know your market
• Know your customers
• Know what your competition is charging
• Know your sales and profits

If your price is too low, you may not be paid enough for your time and skill, and the customer may suspect your quality.

If your price is too high, you may not be competitive, and you may not have all the business you want or need.

However, . . . . BE PROUD ENOUGH TO CHARGE ENOUGH.