# *Pricing Strategy*

Your pricing strategy is one of the first things your business advisor will help you determine. In all pricing models, knowing your operating cost and effectively utilizing that information is vital for business success. Knowing your operating cost per hour is vital in determining how much you will charge for an individual service or product. It is also essential to know where the competition is priced, not to follow the competitor, but to know the market.

Cost-plus and value-based pricing are two established ways to price your product or service. While there are pros and cons to each, the one that is right for you is primarily based on your industry and what goods or services you sell. Cost-plus pricing considers the total cost of making a product. Value-based pricing is based on your product's value perception.

## Cost-plus Pricing

Cost-plus pricing is a straightforward pricing model based on cost of production and desired profit margin. This pricing strategy works well when you offer a manufactured or retail product. It is essential to also consider value-based pricing alongside the hard cost of the product. First, calculate the product's unit cost and add a consistent markup. This allows you to arrive at a final selling price. Cost-plus pricing is based on the idea that a seller should be able to make a profit from providing a good or service.

### Pros:

- ✓ Guarantees margin is attributed in every sale
- ✓ Limits customer haggling
- ✓ Less opportunity to “underbid” and lose money
- ✓ Simpler system

### Cons:

- ✓ Profit is set
- ✓ Better for volume-based businesses

## Value-based Pricing

The baselines of value-based pricing include material costs, company overhead, and the minimum accepted profit. Value-based pricing works well when you have a service-based company or offer quoted jobs. From a product-price versus a product-value perspective, value-based pricing could be the best methodology for your company.

Although there is a minimum amount for a sale, pricing is never set until you do “discovery” with your customer and determine the customer’s perceived value of the product or service. Value-based pricing may require market research and analysis plus an implementation strategy. Due to the higher degree of complexity in value-based pricing, the chance of failure is higher. Value-based pricing works best when you know your position in the marketplace and what you can offer beyond the current competition.

### Pros:

- ✓ Potential for greater profit
- ✓ Potential for greater client buy-in
- ✓ Profit not based on volume

**Cons:**

- More negotiation
- More sales training is needed

## Competitor-based pricing

Competitor-based pricing is not a sustainable option. This method sets prices by either meeting or undercutting your competitors. Competitor-based pricing does not consider the basic principle that you need to charge a price that covers your overhead and operating costs while maintaining a margin. In all pricing models, it is vital to know your operating cost per hour or unit and use it in your final price calculation.

The Gehman Business Advisors can help guide you toward the best pricing strategy for your business. Contact us today to learn more.

*—The Gehman Business Advising Team*

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