Pricing Strategy

HOW TO CHARGE YOUR WORTH!

PRICING STRATEGY

- Determine the best price point for your product
- Determine your monthly revenue goals
- Determine the amount you need to invest to expand

When you're starting out, whether starting a new business or launching a new product or service, it can be tricky figuring out what to charge.

You don't want to charge too high and have no one buy it (or feel like a fraud!)

But you don't want to charge too low and make it look like it's not worth much.

Maybe you question whether you're worth charging higher rates.

SIMPLE STRATEGY APPROACH:

Pricing your products is one of your first thoughts when starting your business. *How much should you **really** expect to earn?* If you haven't mastered your pricing, then this is the workbook for you.

Your pricing shouldn't be fluid. You should build a model to ensure you consider your time, value, cost of goods, overheads, and other expenditures. There are many ways to determine your pricing strategy. The following pages outline the types of pricing strategies you can use.

SIMPLE STRATEGY

As a business owner, you can determine the pricing for your products and services. To make a profit, you need to mark up your products or services and sell them at a higher price than the cost of goods and labor. Understanding markup pricing, its benefits, and how to use it to your advantage can help you make well-informed decisions and strategies to benefit your business.

Markup shows how much more a company's selling price is than the amount the item costs the company. Generally, the higher the markup, the more revenue a company makes.

Shoppers like to feel like they've gotten a good deal. Combining REAL value with a good deal helps to ensure your consumers become repeat customers. Markup margins help you create great deals.

As outlined in the types of strategies sections, you must understand your opportunity to structure cost based on the goods or services you are rendering.

SIMPLE STRATEGY APPROACH:

As a rule of thumb, I recommend marking up your product by 4x!

Why mark up your good or services by 4x? It creates margin for sales and store placement.

- If you run a sale that includes 50% off of your goods, you will still earn 100% the cost of service.

How to Calculate?

Unit Product Cost

Cost of Product + Cost Time to Produce & Prepare + Cost of Overhead (electricity, technology, shipping + storage) + cost of advertisement = Cost Per Unit

×

4

=

Product Price

It is important to embed overhead costs, such as shipping, time and advertisement, in your final cost.

To start this journey, **download the pricing calculator.** The pricing calculator allows you to enter your values based on your business type.

TYPES OF PRICING STRATEGY

Competition-based pricing strategy uses the competitors' prices as a benchmark. Businesses who compete in a highly saturated space may choose this strategy since a slight price difference may be the deciding factor for customers. You can price your products slightly below, the same as, or slightly above your competition or the average of competition.

This strategy is great for products, digital products, and events.

A **cost-plus pricing strategy** focuses solely on the cost of producing your product or service. It's also known as markup pricing.

To apply the cost-plus method, add a fixed percentage or dollar amount to your product production cost.

This strategy is great for products and retailers.

Freemium pricing is when companies offer a basic version of their product hoping that users will eventually pay to upgrade or access more features.

Free trials and limited memberships offer a "peek" into a software's full functionality — and also build trust with a potential customer before purchase. With freemium, a company's prices must be a function of the perceived value of their products.

This strategy is great for SaaS and other software companies.

Hourly pricing is also known as rate-based pricing. Hourly pricing is essentially trading time for money.

This pricing strategy is awesome for consultants, freelancers, contractors, and other individuals who provide business services.

TYPES OF PRICING STRATEGY

A skimming pricing strategy is when companies charge the highest possible price for a new product and then lower the price over time as the product becomes less and less popular.

A skimming pricing strategy helps recover sunk costs and sell products well beyond their novelty, but the strategy can also annoy consumers who bought at full price and attract competitors who recognize the “fake” pricing margin as prices are lowered.

This strategy is best fit for technology products and new products and services**.**

A **penetration pricing strategy** is when companies enter the market with an extremely low price, effectively drawing attention (and revenue) away from higher-priced competitors.

Penetration pricing isn’t sustainable in the long run, however, and is typically applied for a short time. This pricing method works best for new businesses or for businesses who are breaking into an existing, competitive market.

Luxury or prestige pricing is when companies price products high to present an image of high-value, luxurious, or premium. It focuses on the perceived value of a product rather than the actual value or production cost. Thus, this model is a direct function of brand awareness and brand perception.

Consider this strategy for fashion, technology, and luxury.