

# How to find out the right price for your product/service?

Pricing is a very important and challenging part of any new business. Finding out how much you should charge your customers is something every entrepreneur ask themselves. The high price will repel customers and low price doesn't make enough profit for your business to be sustainable and profitable; **The price** is also an indication of quality of your products as well, when customers do not have any other factor to measure your products, the price range is their clue for guessing your product/service quality level.



Here in this document we discuss some of the methods for pricing:

## 1- Check your competitors' prices

This is a good way to find out what price is acceptable in your industry. If the industry is very competitive, then you must charge very similar amount as your competitors, such as a cup of coffee in Melbourne which can cost between 4 to 5 dollars on average. Depending on your target market and positioning you might charge more or less than average.

## 2- Add a certain percentage to all your costs

This is a simple way to price your products and services to figure out how much it costs you to make it, then add your reasonable margin on top of it. Simplicity is the main advantage of this method as well as covering your business if unexpected changes

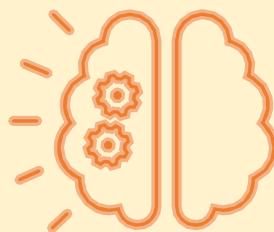
in costs happens. This works particularly for house builders, so they list all trades costs, then add their 10 or 15% fee on top. In this case if customers change the scope of the job, it has the least effect on the profit as you always get your extra add on percentage.

### 3- Set your price based on perceived value by your customers

Your price could be based on what customers recognize your brand with and it is not necessarily dictated by your costs. Your product may only cost you \$3 to make, but customers are happy to pay \$15 for it. The example for this could be the luxury items like a Gucci handbag which is more than \$1000 in retail, but obviously cost way less to make and the specific customers are willing to pay that much to own the bag. Extra effort on branding and communicating your message with customers is necessary if you want your customers to pay top amount. You must be persuading your customers that your product worth that much and they can't get the same value and quality anywhere else.

### 4- Start low then increase your price over time

It mainly works for product based businesses and helps entering the market. If your brand is not known and you want to introduce it to as many people as possible, this strategy will be very helpful. However, the risk is if customers perceive your product value at a certain amount, it is difficult to increase your price later. It is recommended to mention at start that the prices are introductory and will increase later, so the customers realise the real value of your product.



## Your price is a strategic tool to control your business:

IF YOU WANT TO:	PRICE STRATEGY:
Increase sales?	Lower prices for short period to larger sales volume
Increase market share?	Lower price to raise volume sold and increasing market share
Maximise cash flow and profit?	Reduce costs, find cheaper suppliers, streamline processes, raise prices
Stop competitors?	Lower prices and offer more efficient production or service delivery
Control demand?	Set prices to discourage sales; quote high to reduce demand

You can get more information about your industry and its benchmark from Australian taxation office website:

<https://www.ato.gov.au/about-ato/research-and-statistics/in-detail/taxation-statistics/taxation-statistics---previous-editions/taxation-statistics-2014-15/?page=17>

Or Check your industry in [IBIS World](#)