How to Determine the Right Pricing Strategy for Your Small Business



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Since reaching a peak of over 9% in 2022, inflation appears to finally be cooling for the average consumer. Over the last two years, companies across the globe have worked diligently to protect their profit margins by increasing their prices as their costs rose. For small business owners, this creates a number of challenges. Many consumers are still facing the pressures as wages haven’t kept pace with inflation rates. As a result, consumers are more cautious than ever about each dollar they spend.

To make matters more complicated, AI and other technologies are opening the door to new products and lower barriers to

entry in many industries. This advancement is also helping to reduce operating costs as companies shed unnecessary labor and streamline their operations and processes. Now, many companies are realizing that they need to start being more competitive with their pricing to retain their existing customers and attract new ones.

For small business owners, defining the right pricing strategy can feel overwhelming. In addition, price wars rarely have winners as each company tries to outdo the other until both are left with little to no profit. Not only are price wars harmful, but entrepreneurs may struggle – especially if they are trying to win on price alone against a major competitor. Here are some tips to help you find the right pricing balance.

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1. Evaluate the competition

Your competition and the industry can provide a lot of guidance when it comes to pricing strategies. Within each industry, there are typically standard markups or profit margins that are recognized as normal ranges. This can help small business owners understand if their costs are too high or low relative to their sales price.

By evaluating a range of competitors, it's also possible to determine the upper and lower price tolerance for consumers. If the most expensive product in your market is $200, there is a good indication that this is close to the maximum amount consumers will be willing to pay for a similar product.

2. Ignore the competition

Before you assume that I contradicted the first point, it's important that you don't price your product by simply copying your competitors. While your competition's pricing may be a

helpful guide to understanding if you are within the acceptable ranges of the market, picking an arbitrary number is a losing strategy.

Instead, focus on what value you are bringing to consumers instead of the price alone. Unfortunately, too many entrepreneurs believe they can beat the competition by being the cheapest business in town. This mindset will often lead to underpricing your product or service.

Instead, focus on how much consumers might be willing to pay based on the value that your business provides.

3. Consider subscription pricing

Making consistent sales is the key to long-term business success. If you have a product that requires being sold over and over, you might be able to introduce some form of recurring or subscription pricing. This not only helps keep revenue flowing into your business, but it provides long-range visibility into your anticipated revenue. This is helpful for both strategic planning and securing better financing through investors or a bank line of credit.

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4. Flexible or tiered pricing

Most businesses serve a wide range of customers. Offering flexible or tiered pricing can increase your revenue by enabling you to reach a wider range of customers. Tiered pricing also supports a sales strategy known as price anchoring. By offering three or more pricing tiers, you can position your premium and most expensive options as the best value, encouraging more upsells.

5. Loss-leader pricing

While it’s not always best to be the cheapest, this can be an effective strategy for entrepreneurs who are looking to generate early buzz in the market or encourage their first clients to try out their services. This strategy is known as loss-leader pricing, where you sell your product just at or slightly below your breakeven point.

It’s important to caution that low pricing could backfire if consumers believe you are priced low because you have an inferior product or are desperate to make a sale. To counter this effect, the trick is to tie low pricing to a limited timeframe. This creates a sense of urgency to make a purchase and also lets the consumer know that you believe your product is worth more than the current price.

6. Offer transparent pricing

Consumers want to work with companies that they believe are trustworthy. Shady pricing and hidden fees are the perfect way to damage a relationship with your customers. It’s always best to be upfront and transparent about your product pricing. At the end of the day, if sharing your price scares away customers, it’s a good indication that you need to revisit your pricing strategy or do a better job of demonstrating the product’s value.

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