

Pricing your services / products



Introduction

Setting the right price for your services or products is crucial for profitability, competitiveness, and business sustainability. Pricing too high may deter customers, while pricing too low can erode margins and undervalue your offering. This factsheet outlines key pricing strategies and how to determine the best approach for your business.

Key Considerations When Pricing

Understand Your Costs

Ensure you calculate all direct and indirect costs, including materials, labour, overheads, and marketing expenses. Your price must cover costs and generate profit.

Know Your Market

Research competitors' pricing, industry benchmarks, and customer expectations. Understanding where your offering fits in the market will help determine an appropriate pricing strategy.

Value Perception

Price should reflect the perceived value of your product or service. If you offer premium quality or a unique solution, pricing should align with the benefits customers receive.

Target Profit Margin

Decide on a realistic profit margin based on your business model, risk factors, and revenue goals. Consider whether you need high margins on fewer sales or lower margins with higher volume.

Common Pricing Strategies

Cost-Plus Pricing

Add a fixed percentage markup to your costs to ensure profit. Simple to apply but does not consider market demand or customer willingness to pay.

Competitive Pricing

Set prices based on what competitors charge. Effective in competitive industries but can lead to price wars if not managed properly.

Value-Based Pricing

Price based on the value a customer perceives in your product or service. This works well for premium or differentiated offerings where customers are willing to pay more for better quality, experience, or results.

Penetration Pricing

Offer lower initial prices to attract customers and gain market share, then gradually increase prices once brand recognition is established. This is useful for new businesses entering a competitive market.

Premium Pricing

Charge higher prices to position your offering as exclusive or high-quality. Requires strong branding and marketing to justify the price point.

Psychological Pricing

Pricing just below round numbers (£9.99 instead of £10) or bundling products together can influence buying decisions.

Dynamic Pricing

Adjust prices based on demand, seasonality, or customer segments. Often used in travel, hospitality, and e-commerce businesses.

Freemium Model

Offer basic services for free and charge for premium features. Common in software and subscription-based businesses.

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Steps to set your prices

- 01  Calculate total costs, including production, overheads and variable expenses
- 02  Define your target market and assess willingness to pay
- 03  Research competitors' pricing and positioning
- 04  Choose a pricing strategy that aligns to your business goals
- 05  Test pricing levels through promotions, discounts or A/B testing
- 06  Monitor sales, customer feedback and profit margins and adjust as needed