

## Pricing Your Product or Service Right

Written by Steve Marr  
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A convenience store raised the price on a single can of pop from \$1.09 to \$1.19. One block away, another retailer was holding the line at \$.99 each. One pizza shop continued to offer free delivery, even though his competitors had instituted a \$1.00 to \$1.50 charge per order. Establishing the best pricing strategy is always challenging, but considering a few guidelines may help.

First, know your customers. King Solomon wrote, "Know well the condition of your flocks and pay attention to your herds" (Proverbs 27:23 NASB). In business, your customers are your flock. A gas station that thrives on repeat customers may want to keep prices lower on bellwether products like candy and pop to encourage more stops for gas. Increasing sales of those extra items will enhance revenues and build up the bottom line. A station that caters to mostly transit customers may not lose business by charging a few extra cents-in return for convenience-and the higher prices may bring in extra dollars without affecting volume.

A second principle is to know your competitors well. Be keenly aware of how your products, customer service, and prices stack up against the competition. Moses sent out spies to check out the opposition (Numbers 13:2), and so should you. If your prices are too low, you may be leaving money on the table and struggling to cover your expenses. At the same time, high prices will often drive customers away. Determine realistically how your service or product is different from the competition, and then determine if you can and should charge more for superior service, or if you need to cut prices to attract more business.

Matching a competitor's price is wise only when there is little difference to the customer in location, quality, or service. Starbucks offers specialty coffees and lattes at a higher price than, say, McDonalds. If Starbucks were to try to match prices with McDonalds, the result would be little gain in business but a large loss in revenue. Customers are willing to pay more when they perceive that they are receiving something more of value. In the gasoline business, price and location are the key factors. Regardless of appearance, a gas station will attract few customers if their price is a nickel higher than the place across the street.

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Many retailers use a standard markup approach to setting prices, adding the same percentage to every item. Although this is an easy approach, it often fails to yield the best results. Consider keeping prices lower on items that customers buy regularly, and take a higher margin on products that are likely to be an impulse buy. You will keep your volume moving with sharp pricing on the faster-moving products, but you'll also increase your profit margin on slower moving merchandise.

Some companies add surcharges to boost revenue. For example, airlines charge more for paper tickets and checking overweight baggage. Many hotels charge extra for Internet connections, room safes, and room service. That way, customers who desire added services pay more, instead of everyone. Based on the additional work or overhead invested in customers who require more service and attention, businesses can justify charging different prices. But charging different prices to different customers for the same product or level of service is wrong. Moses wrote, "You shall not have in your house differing measures, large and small" (Deuteronomy 25:14 NASB).

A rug-cleaning business charged by the square foot. Pickup and delivery was included in the price. The owner soon discovered that he was losing money on jobs with only one or two rugs. In response, he adopted a two-part pricing strategy. First, he added a delivery charge for smaller orders to offset his cost of providing the service. Second, he offered a discount to customers who sent in four or more rugs. As a result, smaller orders became profitable and customers who had more rugs were given an incentive to provide more business.

Working through a well-crafted pricing strategy will help you maximize your business potential.

Steve Marr, Your Christian Business Coach