Pricing is something I have come to realize is an art form. We worry that no one is going to pay the price we ask or that we are leaving money on the table and are not making enough profit to survive. I have set pricing and helped others review their pricing and through that process, I have landed on a pricing strategy that seems to trump all others.

At the same time being in this industry since 2000, I have seen some bad advice that seems to be repeated more and more. Apparently, it has been repeated enough times people believe it is true and keep sharing it as I see it nearly daily. Fortunately, all of the people sharing bad advice seem to be well-meaning, the problem is people tend to oversimplify. Pricing is an art form that can not be simplified by multiplying a number or two, copying from a neighbor, and just finding the lowest common denominator.

If one or more of these strategies hits a little too close to home, please don't beat yourself up or feel like I'm talking down to you. This is a good thing as it gives you a chance to look at it from a different angle and decide what works for you. Wherever you are at is perfectly fine! I believe in each and every one of you. Your success will fulfill my purpose to cultivate an uncommon mindset in proactive small business owners through essential FUNdamentals to maximize fulfillment by achieving their goals. My goal for you today is to leave with more confidence in your pricing and to give you a model that works for your customers and your bottom line.

Reach out at ConsultAaron.com with your questions.

Your Guide to Success,

Aaron Montgomery

Aaron Montgomery

Avoid

Pricing based on suggestions from others - I fully understand why people go out and ask “What does everyone sell their _____ for?”.


asked a question .

Okay so I have a question. I have a pretty large order for a local business and they want 300 shirts, 100 long sleeve, 100 zip hoodies all Bayside American Made. I called and got a discount on the shirts

I'm asking cause I'm terrible at pricing and I want to make sure that I don't over or under price her.

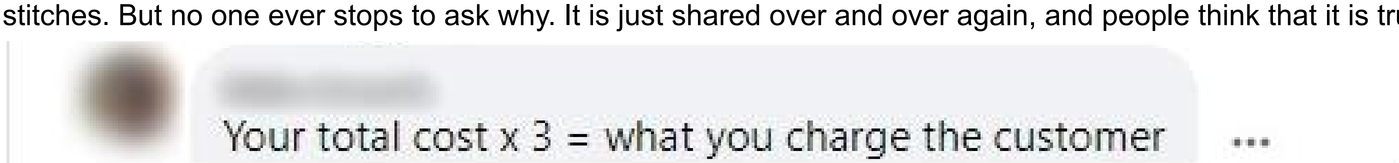
Thanks for the help!

The reality is it should only be done as a market research tool. What is the market potential? The strategy to avoid is using this feedback or “market research” as your basis for pricing. If the feedback you got was $5 per mug, what is the rest of the story? Do they know your costs? Do you know their costs? Without knowing your numbers, you don’t know if $5 works for you. Are you confident enough in your numbers if you sell a mug for $5 that it won’t end up costing you $7 or $8 each? How many orders where you lose $2 to 3 dollars each time can your business sustain?

Your business is different. Your ideal customer’s needs are different. What somebody else would charge for a mug and what you should charge for a mug are two separate realities. The same holds true for searching on Etsy or even suggested manufacture prices. If you can not make the money you need to make at that price, you should not sell that product or find a new way to market it to charge what you need to charge. Before Starbucks came along, not many people in the US were willing to pay $5 or more for a cup of coffee. Now there are almost 15,000 Starbucks in the US (14,838) and places that used to give away their coffee if you bought a donut-like Dunkin, now charge $5 for the Extra Whip, Latte Cappuccino, sugar-filled masterpieces (that I love).

Using what others share, looking up competitors’ pricing, or getting details from the manufacturer of suggested pricing is all fine and dandy, but don’t use that as your pricing strategy.

X3 or another formula unconnected to your numbers - Here is that supposed magic bullet. I see this almost daily, someone suggesting that people take their cost and multiply times 3, or in the embroidery world, it is $1 per 1,000 stitches. But no one ever stops to ask why. It is just shared over and over again, and people think that it is true.


Your total cost x 3 = what you charge the customer

Again the question I have is WHY? When someone shares this, so many details are missing, and it leaves a lot of room for interpretation.

- What does total cost mean?
- Do you factor in your time, do you factor in the spoilage or mess-ups?
- Do you factor in freight, packaging, etc.?

And then to definitively say that equals what you charge a customer. I want to know why? Why is "times 3" the magic formula? If I did "times 4", would I make more profit? If I do "times 2" am I going to win more business because I'm cheaper?

I know the advice is people just trying to help, but it is not a pricing strategy I would use. Watch the video at https://osg.link/3x to see more.

Being the Low-Cost Leader - Way too many businesses have this as their pricing strategy. "I'm going to look at all the competitors and make my price 5 cents lower" Guess what happens? Your competitors look at your price and do the same thing, then you change, and then they change… Do you see where this is going?

Here is the thing: not only will that keep you from making a profit, but it will also make the price the lowest common denominator. In the decorating world, the price being the lowest common denominator is very challenging. We are taking a base product and trying to make it worth more to the customer, increasing the perceived value. The only way to be cheaper than everyone else is to be highly efficient and have bottomless pockets to buy at the lowest prices possible through bulk purchasing. If one of your core values is being thrifty, you can certainly position yourself as the value option, but there will always be somebody willing to do it for less than you. Unfortunately for those willing to do it less than you, they probably don't have a pricing strategy and are just starting their march to going out of business.

Being cheaper makes you a commodity, and as a small business, the commodities trade doesn't work unless you have unlimited capital. Does anyone here have unlimited capital?

What are the specifics of my pricing strategy? How might I not be considering what my company's specific numbers say, what I need to make for success and what my ideal customers need for success?

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The next question is, "How should you price instead?" MY ANSWER - **Market Value Strategy.**

It is very simple. Your strategy should be solely based on your market value. Your market value is the value you bring to the market. It is the value your ideal customers are happy to exchange, and it is a value your bottom line is delighted to receive to make it grow. PERIOD! Your ideal customer and your business are unique to you ONLY! The only reason to look at how much someone else is charging is to understand the market potential. If you need more than what your perceived market potential is, you need to determine how to add more value or find a different target audience. Value, cost, and price might seem similar, but they are quite different.

Seller is happy with the price.

The Science

Overhead Rate / Time

- All Overhead
- Paying Yourself
- Planning for Future

My Overhead Rate = ____________

divided by

Time to Produce = ____________

+ Direct Costs

plus

- Blank
- Inbound Freight
- Easy to track costs

Direct Costs = ____________

The Art

+ Profit Margin

equals

Required Selling Price = ____________

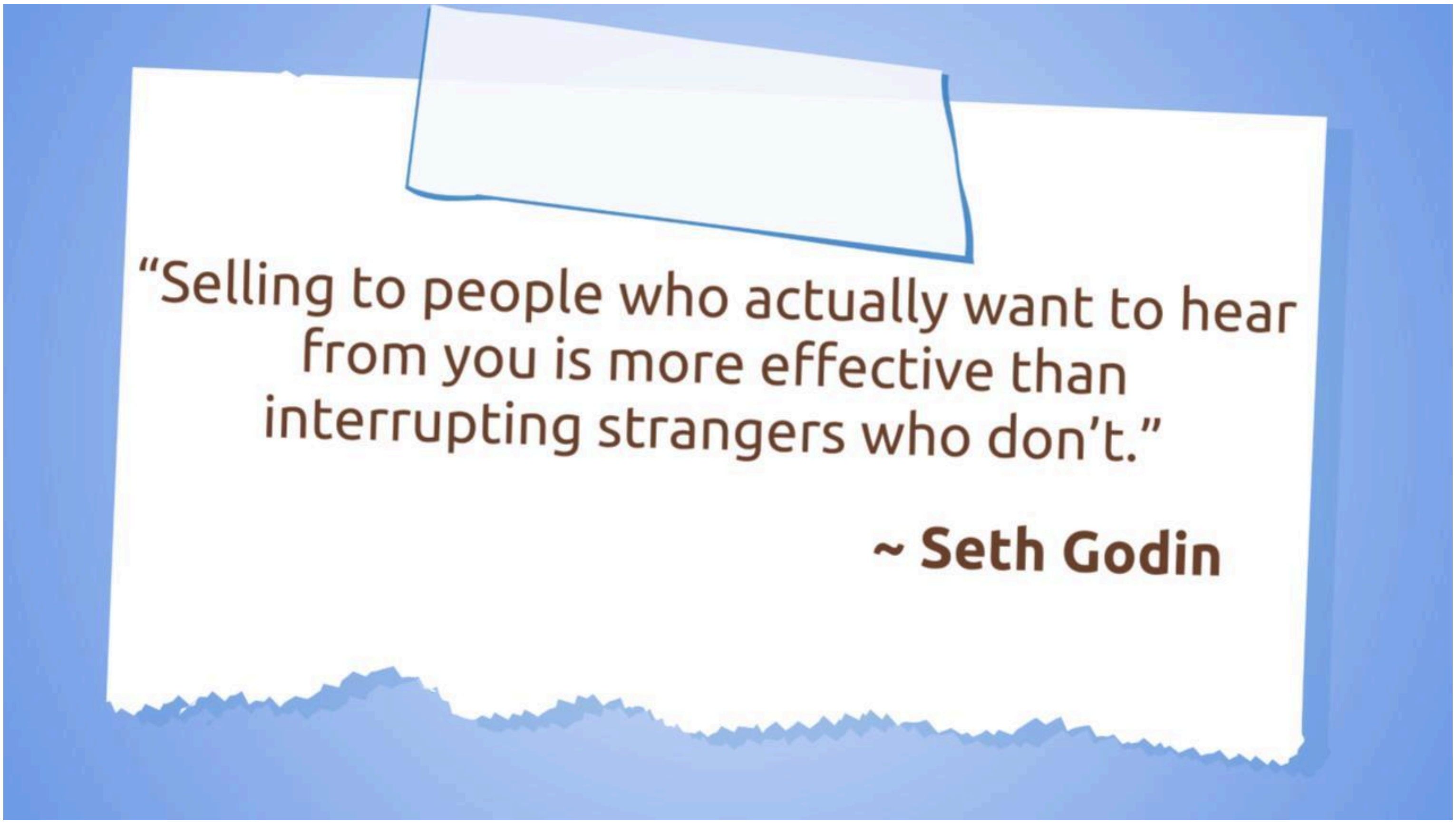
Buyer is happy with the price.

The Ideal Scenario: Equation: "Seller Happy" ≤ "Buyer Happy"
Outcome: Sell the Product at the "Buyer Happy" Price!
This is the ideal situation where both the seller and buyer are happy with the price!

The Challenge: Equation: "Seller Happy" > "Buyer Happy"
This scenario presents a challenge, and you have two choices:

- Reduce your costs (Faster/ More Efficient / Cheaper)
- Improve the perceived value

-Emotional Connection and Value
-Problem-Solving
-Convenience Factors:



Ideal Customer

<u>Simple way to define your ideal customers</u> - Think of the person you do business with currently or who you had hoped to do business with when you decided to start your business where you get really excited when you have an opportunity to work with them. You might think something like "If I had 100 more customers like this, business would be great!". Who are they? What makes them unique? Why are you excited to work with them?

1. ______________________________
2. ______________________________
3. ______________________________
4. ______________________________
5. ______________________________

Describe them here:

____
____
____
____
____

Perceived Value

Increasing your perceived value:

Reduce Pain Points

- Bundle items purchased.

- Direct Pricing

- Sweat the small stuff.

Personalization

Sell the Sizzle

Some common pricing questions:

Common Questions

What is the best way to price items so that you can still make a decent profit when there is local competition?
Starts with knowing your numbers and actual costs.

Sometimes I've had people ask me to give a discount if they purchase several items. I don't budge on price because I'm a small business owner and I don't mass produce… Thoughts.
It's about educating your customers. What is the value you bring to the table that they can connect with?

In pricing an item, do you take into account your time?
I'd go so far as to say you have to take your time into account if you have a business and not a hobby.

Do you price products differently at events? I want to have the customers come back to my website for future orders.
I like to keep it simple and price the same and then give a discount for first time orders at your site.

At what point do you give a bulk discount? When the customer orders 10, 50, 100 of the same items?
When your numbers tell you there is some economy to scale. Do your costs go down at those numbers?

I live in a low income rural area so I struggle to sell locally. I'd love to be able to attract more local interest though.
I believe this might be a limiting belief. People in your town spend more money on something else all the time. See anyone wearing Nike Sneakers? If you believe you are worth the price and create value for your local community.

How do you strategize for giving high volume discounts?
It all starts with knowing your numbers and reasons for giving high value discounts.

Do you have a pricing formula?
Yes, but it is different that just saying X 3. There is some ground work to do first.

What is the best strategy when dealing with markets like realtor baskets that they give to new homeowners and buying in bulk so everyone feels like they won?
I don't change my strategy regardless of the opportunity. It's about knowing your numbers.

Fundraising… If an organization wants a large percentage like a 50/50, should you mark-up above your normal retail.
I would say yes, raise your prices. You have to make what your business needs to make or say no.

How do you store the pricing for each substrate so if someone comes up and asks you the cost you don't have to figure out the cost.
Spreadsheets! The number one business tool. I use Google Sheets.

How do I price my items when there is so much competition?
Believe in yourself! Focus on the value you provide and not the price. If you focus on that, your customers will too.

I have been told I do not charge enough. How do I get over that?
Which way are you trying to get over it? Do you feel as if you don't charge enough? Do your numbers tell you that you are not charging enough?

What other questions do you have?

CONSULTAARON.COM

OurSuccessGroup.com/dax

Bonus Resource
A FREE version of a product pricing spreadsheet I use. If you know overhead and know how to calculate your daily shop rate, this spreadsheet gives you an incredible way to look at your actual costs and determine the market value and a price the buyer will be happy with, and a price that makes your company a profit. Go to the link above to download a copy for yourself.