



THE SECRETS OF PRICING, MAKING IT YOUR ADVANTAGE

An often-neglected part of home business is the pricing of your services. You know what you can do, you know there's a market for it, but do you know how much you can get away with charging, without putting the customers off? Here are a few tips to maximise your profit margin.

Find Out What Your Competitors Charge.

Ring round some of your competitors (you might want to use a fake name), and find out what they're charging for the services you offer. You can then make a price comparison table. If you're working in an industry where price isn't a big thing customers look at, you might charge around the average of your competitors' prices. If price is a big factor in your industry, play aggressively -- put your table in your advertising materials, and price yourself so you beat everyone on the list (you might not be able to do this in some industries, however).

Be aware, though, that you might not always want to be the cheapest out there. Somewhat strangely, you might find that you can take away a competitor's business in some industries simply by moving into that sector and charging a higher price than they do for similar products. One of the biggest secrets of pricing is that people assume price means quality, and purchase accordingly. There's jewellery out there, for example, that is priced at thousands of dollars but only really worth a few hundred -- what people pay for, oddly enough, is the status that comes with buying something with such a high price.

An Easy Formula: Cost Plus Time Plus Margin.

If you'd like to be more scientific about your pricing, here's a way to do it. First, work out your costs. This is any materials that you use for your work, as well as your overheads, such as electricity, advertising, lawyer's fees, and so on. Once you're done, you should have figured out how much each product you offer costs you, before you include the price of your work. You should overestimate this number, but not by too much.

The next step is to factor in a charge for your time. Basically, work out how many hours it takes you to provide a product, and then work out the pricing so you're getting a satisfactory hourly rate. It's up to you what kind of rate to set for yourself -- start at minimum wage, and then work out how each increase would affect the price. A good guide is how much you would expect to pay an employee to do the job for you if you ever expanded to the point where employees were needed.

This is also a good opportunity to see if there are any efficiency savings you could make: if there's a service that would take two hours off the time needed for one product, and it would only cost you one hour's pay to get that service, you should do it.

Finally, once you've added cost and time, you need to add in a margin. This should typically be about 30-50% of the price you've come up with so far. This money will be good for investing in expansion, paying taxes, and covering yourself against anything else that comes up.

Don't Get Emotional About It.

If you're selling something that you've put a lot of work into -- especially something that you've worked hard to make -- you might feel that the market price doesn't represent the value you feel it has. This is a terrible trap to fall into, as you're very unlikely to ever be able to sell anything if you've priced it too highly out of emotional attachment. You need to accept ahead of time the kind of prices you're going to get for things, and think of them as being worth that much.

Always Be Willing to Negotiate.

You will get customers who want to negotiate with you over your prices. Play them at their own game. Make it look like you're making silly negotiating errors so that they feel like they're getting a really good deal. Just make sure that you know the minimum price you're willing to take before you meet with them, and don't take any less.