BUSINESS STARTUP BLUEPRINT

PRICING YOUR SERVICES

TRANSCRIPT

upflip

A lot of new business owners get stuck on how much to charge for their products or services. The reality is, the price you charge comes down to one single thing: does the customer believe that what you're charging is worth the price? This value can be real or perceived.

Perceived value means the customer feels they're getting more than just the product or service. For example, restaurants selling $500 tomahawk steaks create an experience with waiters, drums, chanting, and dramatic presentations.

The perceived value is higher even if the actual product is similar to something much cheaper. To fetch a higher price, provide a better-than-average customer experience and perceived value.

Next, understand a good business model and COGS (cost of goods sold). On Shark Tank, investors drill entrepreneurs on their costs to produce items. Whether you're a product-based or service-based business, COGS applies.

For example, in a floor coating business, COGS include materials and technician labor. It's important to understand these costs to price your services correctly.

To do a top-down analysis, look at labor and material costs as a percentage of what you should charge. For example, if labor and materials cost $1,000, and COGS are 40%, divide $1,000 by 40% to find the price you should charge.

Many products are marked up by two to three times their cost to cover expenses and profit. As you scale your business, your pricing might need to increase to cover middle managers, systems, benefits, higher-quality employees, and marketing.

Dial in your pricing, and use available resources and worksheets to better understand how to price your products and services.

Also, consider what the market can bear. Secret shop competitors to understand their pricing, but don't base your pricing solely on theirs.

Focus on your real and perceived value and customer experience. Being the cheapest isn't always the best strategy, as it can lead to low margins and financial instability.

When creating your pricing model, include enough margin for promotions. Customers feel they're getting a deal with discounts, so starting with a higher retail price can allow for effective promotions.

Retail stores often use this strategy to show discounts while still maintaining profitability. Design your pricing model carefully, considering COGS and potential promotions.

Make sure your costs are covered and that you're providing enough margin for discounts.

We'll see you in the next lesson.

Summary of Key Points:

- **Perceived Value:**
  - Enhance customer experience to increase perceived value
  - Example: High-end restaurants with dramatic presentations
- **Understanding COGS:**
  - Cost of goods sold includes materials and labor
  - Important to analyze COGS to set correct pricing
  - Markup products by two to three times their cost
- **Market Research:**
  - Secret shop competitors to understand their pricing
  - Focus on your real and perceived value, not just undercutting competitors
- **Pricing Strategy:**
  - Include enough margin for promotions
  - Start with a higher retail price for effective discount strategies
  - Ensure costs are covered and allow for profitability